


3 1761 11632478 1

CA1

Z1

-34 P22

Canada. Royal Commission on Price
Spreads
Briefs and submissions...



Digitized by the Internet Archive
in 2023 with funding from
University of Toronto

<https://archive.org/details/31761116324781>

Confidential
VWB leader

Canada, Royal Commission on Price Spreads

The PLACE of
THE DEPARTMENT STORE
IN
CANADIAN ECONOMIC LIFE

Statement on behalf of
The T. Eaton Co. Limited

~~Presented to
the Special Committee on
Price Spreads and
Mass Buying~~

P. 1518

OTTAWA
June 7th, 1934

TO THE HON. H. H. STEVENS, M.P.
CHAIRMAN OF THE COMMITTEE ON PRICE SPREADS
AND MASS BUYING,
HOUSE OF COMMONS,
OTTAWA

SIR:

I have the honour to present to you the enclosed Statement,
on behalf of the T. Eaton Company.

I am, Sir,

Your obedient Servant,

Gilbert E. Jackson

Toronto,
June 7th, 1934.

541
21
-34P22

TABLE OF CONTENTS

PART I—INTRODUCTION		Page	PART III—Continued		Page
NARROW PRICE SPREAD OF THE DEPARTMENT STORES		6	3. RESPONSIBILITIES OF THE DEPARTMENT STORE EXECUTIVE		20
NEED FOR AN AUTHORITATIVE COMPARISON OF PRICE SPREADS		6	4. THE PROBLEM OF PRICE ADJUSTMENT, CONSIDERED FROM A NATIONAL STANDPOINT		22
LOW PRICE SPREAD OF DEPARTMENT STORES IN CANADA WHEN COMPARED WITH THAT OF RETAIL ORGANIZATIONS IN THE UNITED STATES		7	5. INFLUENCE OF THE DEPARTMENT STORES UPON MANUFACTURING INDUSTRIES		24
COST AND PROFIT, 1929-1933: ANALYSIS OF THE RETAIL "SALES DOLLAR" BASED ON THE COMBINED DEPARTMENTAL OPERATING RESULTS OF THE COMPANY'S STORES		8	(i) Relatively Small Decline in the Manufacturers' Prices of Goods Sold at Retail		24
			(ii) Necessity for a Decline in Manufacturers' Prices, in Order to Maintain Volume		25
			(iii) Special Cases of the Furniture and Rubber Manufacturing Industries		26
			(iv) Other Manufacturing Industries Producing for the Retail Market		27
			(v) Stabilising Influence of Price Reductions		27
RT II—THE DEPARTMENT STORES AND THEIR SMALLER COMPETITORS			6. POSITION OF THE MANUFACTURERS IN RELATION TO THE DEPARTMENT STORES		28
SPECIAL ECONOMIES OF OPERATION SECURED BY THE DEPARTMENT STORES		10	7. ALLEGED PRICE CONCESSIONS TO THE MASS BUYERS		31
SPECIAL SERVICES OFFERED BY THE DEPARTMENT STORES		11	(i) In Conditions of Normal Trade Activity		31
EXTENSION OF THESE SERVICES THROUGH THE MAIL ORDER HOUSES MAINTAINED BY THE DEPARTMENT STORES		12	(ii) In Times of Depression		32
HANDICAPS OF THE SMALLER RETAILERS		13	8. THE QUESTION OF "LOSS LEADERS"		32
SMALL NUMBER OF HOUSEHOLDS SERVED BY THE INDEPENDENT RETAIL MERCHANT		14	(i) Motives Responsible for the Sale of "Loss Leaders"		32
EFFECT OF RECENT CHANGES UPON THE SMALLER RETAILERS		14	(a) To Meet the Competition of Other Sellers		33
(i) The Changing Level of Commodity Prices		14	(b) To Distribute Sales More Evenly During Store Hours		33
(ii) The Changing Influence of Fashion		15	(c) To Bring Increased Custom to the Store		33
(ii) The Changing Character of Transportation		16	(ii) Relative Unimportance of the "Loss Leaders"		33
(v) The Changing Distribution of our Population		16	9. TREATMENT OF THEIR EMPLOYEES BY THE DEPARTMENT STORES		33
			(i) Expenditure on the Welfare of Employees		34
			(ii) Earnings of Employees During the Depression		34
RT III—POSITION OF THE DEPARTMENT STORES IN TIMES OF DEPRESSION					
NATURE OF RECENT ALLEGATIONS AGAINST THE DEPARTMENT STORES		18	PART IV—CONCLUSION		
(i) Supposed Dis-Service to the Smaller Independent Retailers		18	1. THE POSITION SUMMARISED		36
(ii) Supposed Dis-Service to Manufacturers and Other Sources of Supply		19	2. FUTURE OF THE SMALLER RETAILERS		37
(ii) Supposed Dis-Service to Workers Employed in the Factories and Elsewhere		19	(i) Over-crowding of the Retail Field		37
NATURE OF THE CASE AGAINST THE MAIL ORDER HOUSES: AND CONSIDERATIONS IN REBUTTAL		20	(ii) Continuous Market Analysis Essential for the Small Retail Merchant		38
			(iii) Importance of the Successful Independent Retailer		38
			(iv) Functions and Prospects of the Specialty Store		39

STATISTICAL TABLES

	PAGE		PAGE
TABLE 1—Gross Margin of United States Retail Establishments: 1930-1932 . . .	7	TABLE 9—Wholesale Prices of Canadian Farm Products Compared with the Wholesale Prices of Manufactured Goods; and with the Wholesale Prices of Consumers' Goods: 1928-1933	25
TABLE 2—Gross Margin of a Canadian De- partment Store Organization: 1930-1932 . .	7	TABLE 10—Wholesale Prices of Foods, Bever- ages and Tobacco Compared with the Wholesale Prices of Other Consumers' Goods in Canada: 1928-1933	25
TABLE 3—Analysis of the Department Store "Sales Dollar:" Based upon the Depart- mental Operating Results of the Com- pany: 1929-1933	8	TABLE 11—Index of Employment in all Cana- dian Manufacturing Industries Compared with Indexes of Employment in the Furni- ture and Rubber Industries: 1929-1933 . .	26
TABLE 4—Commercial Failures among Retail Traders in Canada: 1926-1933	13	TABLE 12—Indexes of Employment among the Makers of Durable Goods and the Makers of Consumers' Goods Respectively: 1929- 1933	26
TABLE 5—Income for Consumption or Savings in Canada, in Dollars: 1928-1933	23	TABLE 13—Indexes of Employment in the Manufacture of Leather and Products; Thread, Yarn and Cloth; Hosiery and Knit Goods; and Garments and Personal Furnishings: 1929-1933	27
TABLE 6—Net Product of Canadian Agricul- ture, in Dollars: 1928-1933	23	TABLE 14—Changes in Hourly Wages of Store Staffs Compared with the Changes in the Retail Cost of Living: 1929-1933	35
TABLE 7—Construction Contracts Awarded in Canada, in Dollars: 1928-1933	23		
TABLE 8—Index of Retail Prices in Canada: 1928-1933	24		

DIAGRAM

Analysis of the Retail Stores' "Sales Dollar:"
Based upon the Departmental Operating
Results of the Company from 1929 to
1933 Page 9

DIGEST OF THE STATEMENT

6. The spread between the prices paid to the producers for merchandise, and the prices received by the public for the same merchandise is, in the case of this Company's Department Stores, nonstrably small. Accurate comparison cannot be made with other retail outlets in Canada; but its spread compares very favourably with authoritative figures for the United States.

7. The "Sales Dollar"—That is, the dollar spent by these Stores during the past five years, by the retail consumer, contains the following elements:—Covered cost of merchandise, 76.3 cents; merchandising expenses, 21.7 cents; and interest and profit, 2.0 cents. Further narrowing of the spread (in an appreciable amount) would, almost necessarily, be brought about at the workers' expense.

8. The small independent retailer has certain pronounced advantages over the Department Store:—ably his proximity to the customer and his very personal contact with him. Nevertheless, many such retailers lead a precarious existence. One of the basic reasons for this is the flagrant overcrowding of the retail field in Canada. Even where there were no department or chain stores, the number of Canadian families per independent retailer would, on an average, be not more than fifteen.

9. Moreover, recent changes have affected the small independent retailer. His relatively slow merchandise turnover has made him take heavy losses on a falling market. The growing influence of fashion has involved him in new risks. Better transportation facilities have encouraged his customers to shop at a distance. In many cases, the shifting of population to new centres has taken them from him permanently. For none of these changes can anyone be held responsible.

10. Department Store policies must be viewed against the background of the depression. Coming 1933 with 1928, we find that the national income, in dollars, shrank by 45 per cent. The miners and construction workers, who constitute more than one third of the population, suffered most. The disastrous effects of this income reduction have been mitigated somewhat, since retail prices fell in the same time by 21 per cent. But the Department Stores have, in the stress of the world-wide depression, assisted, to some extent, in bringing about this decline in retail prices, it is denied. By doing so, they rendered an essential service to Canada. From this decline in retail prices, millions of Canadians have benefitted.

11. Compared with the fall in the national income, and in the prices paid for farm products,

the prices paid to manufacturers producing for the retail market have declined only moderately. The reduction, on an average, was about 18 per cent from 1928 to 1933. Prices were obviously bound to fall, if manufacturers were to maintain volume. As a result of price reductions, employment was relatively well maintained, in most industries producing for the retail trade.

12. Any resentment against the Department Stores, on the ground that, as buyers, they hold a preferred position, leaves out of the reckoning the benefit to the manufacturer of Department Store accounts. The Canadian manufacturer has always found a valuable outlet in the Department Stores. Their contracts are always "as good as cash." There is frequently no selling cost involved, when doing business with them. The Department Stores frequently relieve manufacturers of responsibility for style and design, by providing their own specifications. The large orders that they frequently give, entailing "long runs," enable manufacturers to plan ahead, to "spread" work, and to lower costs all round. They provide an invaluable means of liquidating excessive inventories. Considering these tangible advantages, it should appear not unreasonable that the Department Stores are quoted somewhat lower prices, than retail merchants operating on a smaller scale.

13. Criticism of the Department Stores, on the ground that they maintain "loss leaders," much exaggerates the situation. It is true that this Company has advertised "loss leaders;" but these are not of much importance, since its "loss leader" sales appear to have averaged less than \$200 each.

14. This Company naturally regards the welfare of its store staffs as a primary responsibility; and in rendering (as it believes) an essential service to Canada during the depression, it has also not been unmindful of those employed in its Stores. While the wages of the store staffs were inevitably reduced during the depression, the reduction has been moderate—an average decline of 16½ per cent in hourly rates, from 1929 to 1933. Within the same period, the cost of living declined by 22 per cent. Thus, the worker who was retained on a full-time basis earned a wage with a greater retail purchasing power in 1933, than in 1929.

15. In establishing such a record, this Company found itself obliged to shoulder an increasing proportionate burden of wage charges during the depression; and in a large measure this increasing burden was borne by the shareholders, in the form of reduced interest and profit; which at one stage in the depression had actually fallen by more than four-fifths from the pre-depression figure.

STATEMENT TO THE COMMITTEE

PART I. INTRODUCTION

MR. CHAIRMAN AND GENTLEMEN: Your Orders of Reference made it clear from the first that your Committee would give a great deal of attention to the Department Stores.

The form of retail trading organization known as the Department Store has been a natural growth in France (where it is believed to have originated), in Britain, and in the United States, as well as in this country. It is a matter of record that most of the great Department Stores of to-day have grown from very small beginnings, in competition with all other forms of retail organization; and this has been the case with the Department Store organization on whose behalf this statement is presented.

The fact that the Department Store has been a natural growth is, in itself, *prima facie* evidence that it is an efficient means of retail merchandising. If the spread between their purchasing prices and their selling prices had, in the past, been larger than the spread usual in retail trade, Department Stores could scarcely have been as successful as in fact they have, in many cases, been. Nor could the growth of Department Store organizations have been as rapid.

For these reasons, we do not for a moment suppose that your Committee has been tempted to regard the Department Store as being one of "the causes of the large spread between the prices received for commodities by the producer thereof, and the prices paid by the consumers thereof," which were appointed in your Order of Reference as the main subjects of your investigation. But lest there should be any doubt in your minds, or in the minds of the multitude of Canadians who follow with interest your Committee's deliberations, as to whether the Department Stores have or have not served on the whole to narrow the spread between the prices paid to producers for their wares and the prices paid by consumers for the same products, we wish in the first place to call your attention to the average spread between purchasing prices and selling prices, which is to be found in our own organization.

Your staff of investigators, which has spent many days in examination of our records, will be able to assure you as to the correctness of these figures, as well as of certain others, to which we shall presently draw your attention.

1. Narrow Price Spread of the Department Stores.

In the comparisons that immediately follow, we reckon among the delivered cost of merchandise sold, in the stores and mail order departments of this Company, the freight paid in bringing the goods from the farms and factories to the stores, and such sales taxes as have been charged upon the goods at the time of purchase. (The service of bringing the goods to the stores is, we believe, essentially to be considered as a part of the service of production. The sales tax, though destined for the Treasury, not to the producers, is properly, we believe, also to be regarded as part of the cost of these goods.)

If, then, the delivered cost of merchandise sold, as defined above, is compared with the gross income from sales of the Company presenting this statement, it is found that over the past five years, from 1929 to 1933 inclusive, the average spread or mark-up on all merchandise sold has been 32.7 per cent. In other words, of every dollar paid by the retail consumer, no less than 75.4 cents were required to defray the cost of delivering the goods in the store where the purchase was made; and 24.6 cents sufficed to pay the costs of warehousing, servicing, marketing and any necessary delivery charge; as well as to pay the taxes of the Department Stores in question to the Dominion, provincial and municipal governments; to pay interest upon the capital employed; and to furnish the merchandising profit, if any, to the Stores themselves.

2. Need for an Authoritative Comparison of Price Spreads.

We have not succeeded in discovering any corresponding figures, based upon the records of Canadian retail houses other than those in our own organization, which would indicate how large, on an average, is the spread between the delivered cost of merchandise to them, and their gross income from sales; nor are we aware that your Committee has collected any such data from retailers generally. But in the absence of authentic comparative figures, which would settle once and for all the question whether, in this Dominion, it is the Department Stores or some other

STATEMENT TO THE COMMITTEE

uses of retail organization, which maintain, on average, the smaller spread "between the prices paid for commodities by the producer thereof and the prices paid by the consumers thereof," we have no hesitation in claiming that the form of retail organization represented by the Department Stores does reflect great economies in operation: of which the people of Canada get the benefit, in the form of goods of high quality, bought at low prices.* In these days, when millions of consumers everywhere are in straitened circumstances, the value to them of any unusually economical form of merchandising organization does not need to be stressed. Anything which is calculated to render less economical the system of distribution in question must, to that extent, operate so as to reduce still further the purchasing power of these millions of small consumers.

Low Price Spread of Department Stores in Canada, When Compared with that of Retail Organizations in the United States.

While we know no means of making, at present, direct and authoritative comparisons of price spreads in Canada, as between different kinds of retail organizations, it will be within the knowledge of the Committee that the price spreads of the Department Stores in Canada, to which reference has already been made above, can be compared with certain authoritative figures collected in the United States. For many years past, statistics have been voluntarily supplied to the Graduate School of Business Administration of Harvard University, by certain retail merchants of almost every kind in the United States. These statistics are analysed by recognised experts, and are annually published in a Bulletin "Operating Results of Department and Specialty Stores," which we are glad to submit as evidence in this connection. We take from the 1932 Bulletin, the latest which is at present available, figures illustrating, for the years 1930, 1931, and 1932, operating results of typical Department Stores of various sizes; and of typical Specialty Stores of corresponding sizes. We take from Tables 4 and 5 on page 4 of this Bulletin, figures showing for each of six groups, and for each of the three years above-mentioned, the percentages of Total Merchandise Costs (Net), and Gross Margin respectively. The latter of these figures almost exactly corresponds with the price spread, of which mention has already been made above: though, as

it is true that, within the past few days, the Dominion Bureau of Statistics has published its long expected "Memorandum on Merchandising in Canada," in which it quotes at 25.56 per cent, the average operating expenses for all Department Stores in the Dominion in that year; and that (giving an assumed value to the services of proprietors), it estimates the operating expenses for independent stores at 24.06 per cent, of net sales. This estimate suggests that the *relative price spread* of independent stores may be slightly lower than that of Department Stores; which would not be remarkable, if it proved to be so, since the Department Stores give a much complete service to the customer than independent stores. On the other hand, however, in as much as the average of selling prices of merchandise is, generally speaking, higher in independent stores than in Department Stores, it is at least extremely probable that the *absolute price spread* is to be found in the Department Stores, in spite of the more complete service. (That is to say, (for example) 25.56 per cent of \$1.00 is more than 24.06 per cent of \$1.10.)

will be seen below, we have made a small adjustment, so as to render the figures exactly comparable.

The figures, which cover 317 Department and 48 Specialty Stores, are as follows:

TABLE 1

	1930	1931	1932
DEPT STORES WITH NET SALES OF LESS THAN \$500,000 IN 1930			
Total M'd'se Costs (net) ..	71.0%	71.5%	73.4%
Gross Margin	29.0%	28.5%	26.6%
	100.0%	100.0%	100.0%
DEPT STORES WITH NET SALES OF FROM \$500,000 TO \$2,000,000 IN 1930			
Total M'd'se Costs (net) ..	68.3%	68.7%	69.1%
Gross Margin	31.7%	31.3%	30.9%
	100.0%	100.0%	100.0%
DEPT STORES WITH NET SALES OF \$2,000,000 OR MORE IN 1930			
Total M'd'se Costs (net) ..	66.3%	66.7%	66.9%
Gross Margin	33.7%	33.3%	33.1%
	100.0%	100.0%	100.0%
SPECIALTY STORES WITH NET SALES OF LESS THAN \$500,000 IN 1930			
Total M'd'se Costs (net) ..	67.4%	67.8%	70.5%
Gross Margin	32.6%	32.2%	29.5%
	100.0%	100.0%	100.0%
SPECIALTY STORES WITH NET SALES OF FROM \$500,000 TO \$2,000,000 IN 1930			
Total M'd'se Costs (net) ..	65.7%	65.7%	65.7%
Gross Margin	34.3%	34.3%	34.3%
	100.0%	100.0%	100.0%
SPECIALTY STORES WITH NET SALES OF \$2,000,000 OR MORE IN 1930			
Total M'd'se Costs (net) ..	65.1%	65.5%	65.5%
Gross Margin	34.9%	34.5%	34.5%
	100.0%	100.0%	100.0%

The combined figures for this Company corresponding to these United States statistics,* are:

TABLE 2

	1930	1931	1932
Total M'd'se Costs (net) ..	76.3%	78.7%	73.7%
Gross Margin	23.7%	23.3%	26.3%
	100.0%	100.0%	100.0%

*In order to put the figures for the retail stores of this Company on a basis strictly comparable with these figures published by the Graduate School of Business Administration of Harvard University, we have uniformly deducted 0.8 per cent, from the delivered cost of merchandise to the Canadian Stores, in arriving at the percentage of "Total Merchandise Costs (Net);" and have added 0.8 per cent to the remainder, in arriving at the percentage of "Gross Margin." With this adjustment, the situation illustrated in Table 2, may, we believe, directly be compared with that illustrated in Table 1.

STATEMENT TO THE COMMITTEE

It will be noticed that, in the case of our own Canadian Stores, the *highest* of the figures illustrating Gross Margin, that of 1932, is actually lower than the *lowest* corresponding figure shown by any group of United States stores whose experience has been summarised in Table 1, in any of the three years surveyed. The average figure for our own Canadian Stores is obviously well below the average either for the United States Department Stores whose operating results are represented here, or for the United States Specialty Stores which were continuously reporting to the Graduate School of Business Administration during this period.

A further comparison between the gross margin of this Company, in its retail stores, and corresponding records of retail merchants in the United States, has recently become available in an official report of the United States Government; and this time the whole of the retail merchants in the United States are covered, including independent and chain stores.

The report in question is Senate Document No. 124, of the Seventy-Third Congress. It carries the title "National Income 1929 to 1932"; and makes reference to "the estimates of Gross Margin provided by the Cost Analysis Division of the Bureau of Foreign and Domestic Commerce," in the United States. It continues "this Gross Margin, in percentage of sales, shows in retail trade a drop from 28.5 in 1929 to 27.8 in 1932." The corresponding figure for our own Company, (after making the same adjustment, as was made in Table 2 above) are:—in 1929, 23.2 per cent, and in 1932—as already stated—26.3 per cent. Here again it will be seen that the higher of the two figures quoted in respect of ourselves is lower than either of the figures referring to the United States.* The Gross Margin of our own Company thus compares well, not only with the special classes of stores quoted in the Harvard Study, but also with the general experience of all retail establishments, of all kinds, in the United States.

In view of a great deal of the evidence that has been tendered to this Committee, by persons believing that producers' incomes have been narrowly restricted by the pressure of the Department Stores in Canada, the tenor of these United States figures may be regarded as surprising. We submit, nevertheless, that they throw light upon the Canadian situation.

4. Cost and Profit, 1929-1933:

Analysis of the Retail "Sales Dollar"

Based on the Combined Departmental Operating Results of the Company's Stores.

At this point, we believe that it will be helpful to your Committee if we present an analysis of the

*The recently published "Memorandum on Merchandising in Canada (1930)" gives the following comparative figures for the percentage of operating expense in Canadian and United States Department Stores respectively: Canada, 25.56 per cent; United States, 25.19 per cent (Department Stores with food departments); and 29.25 per cent (Department Stores without food departments). Both figures, presumably, refer to 1930.

combined experience of all the retail stores that our own Company maintains.

For this purpose we have taken the gross income from sales of all our retail stores combined, during the whole of the five years from 1929 to 1933, inclusive.*

We have divided gross income from sales into three constituents: the delivered cost of merchandise to the retail stores; merchandising expenses; and the residue which is available, after these two have been deducted. Only this residue can be treated as applicable to the payment of interest on fixed and working capital (including such bank loans as were needed for the conduct of the business) and to net profit.

The "sales dollar," thus analysed, is shown in Table 3 herewith; and presents the following picture:

TABLE 3

Delivered Cost of Merchandise.....	76.3 cents
Merchandising Expenses.....	21.7 cents
Interest and Net Profit.....	2.0 cents
Total.....	\$1.00

It will be seen that, on an average, the delivered cost of merchandise accounts for more than 76 cents of each dollar received from the retail sale of merchandise by these stores. Less than one tenth of the Gross Margin has been available for the payment of interest, in all its forms, and as net profit.

On an extreme supposition, if there had been no net profit, and if no interest had been earned even on bank loans, the prices of the merchandise sold by these Stores would only have been reduced by about 2 cents on the dollar. Any substantial saving in their Gross Margins would almost necessarily have been made at the expense of the workers employed in them, by further reduction of the wages paid to store staffs.

This no doubt would have been practically possible; but, as will presently be seen, this Company has jealously guarded its store staffs against reductions in wages which could possibly be avoided: and, as a result of the wage policies pursued, the incomes of those who have remained in full-time employment throughout the depression have at the present time at least as much purchasing power as they had in 1929, if not slightly more.

Moreover, if our Department Stores had secured any considerable saving by retrenchment in this important direction, they would obviously have rendered themselves open to precisely the same criticism,

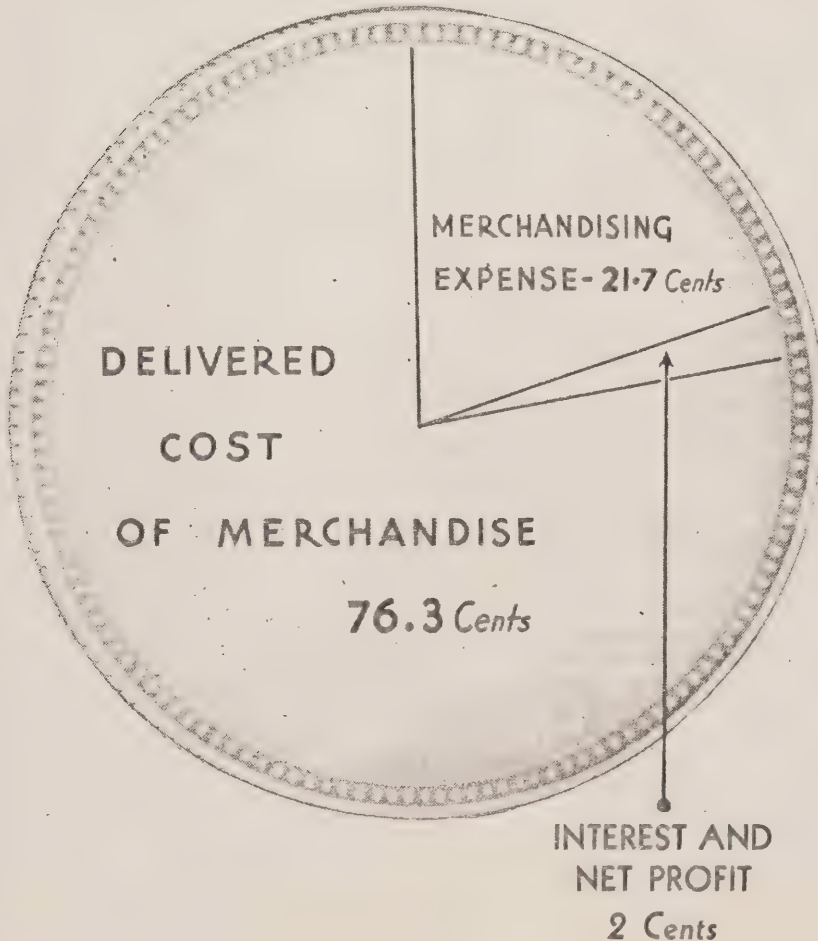
*We have already quoted, on a previous page, the average Gross Margin maintained, during the five years 1929-1933. The figure given above, as representing delivered cost of merchandise (75.4 cents per dollar of sales), is not precisely the same as the figure given here in Table 3 (76.3 cents). In the former case merchandising operations of the Company were considered as a whole; mail order sales were included with over-the-counter sales in retail establishments, in the making of the totals. In the present instance, the figures relate solely to sales in the retail establishments maintained by the Company; and this accounts for the difference. Gross Margins are naturally slightly higher in the Mail Order Houses, than in the Department Stores. In broad terms, it may be said that freight charges on mail order shipments (from the mail order warehouse to the railroad station nearest to the customer) account for this excess.

STATEMENT TO THE COMMITTEE

that which has been directed against the manufacturers in a number of industries, during the hearings of your Committee. As it is, they may fairly be said that, despite the maintenance of Gross Margins

markedly lower than those of retailers in general, throughout the United States, they have scrupulously conserved the interests of those employed in their retail establishments.

Analysis of the Retail Stores' "Sales Dollar:" Based upon the Departmental Operating Results of the Company from 1929 to 1933



PART II. THE DEPARTMENT STORES AND THEIR SMALLER COMPETITORS

1. Special Economies of Operation Secured by the Department Stores.

What are the reasons for the rise of the Department Stores to so prominent a position that they have been brought under fierce criticism?

In a sense, the remainder of this statement may be regarded as an elaborate reply to this question. But some of the main economies are very conveniently summarised, within a single paragraph, in the quotation that follows. This is taken from a classic analysis of modern business—Marshall's "Industry and Trade"—which, having been published in 1919 in Britain, can scarcely be said to have been written as a brief for Department Stores in Canada in the present enquiry.*

Before dealing with these economies (and apropos of their merchandising policies generally), Marshall emphasises, in the first place, that the chief Department Stores "appear to have recognised the principle that, though a giant store can, and must, use many expensive means for making its claims known, its best resource is in that highest form of advertisement, which comes from the recommendations of one customer to another." Their practice is to pass along to the customer, whether in the form of lower prices or completer service, or in both these, the results of their economies in operation.

In discussing these economies of operation, he continues, "A vast store has many large economies in administration and in buying. It saves especially in ground-rent: for a single first-rate frontage on a good thoroughfare serves as an introduction to many acres of flooring, well lighted from the centre and sides. It does not need to keep a sufficient staff in each department to meet exceptional demands; for some employees are so trained as to be serviceable in each of several departments: each of its motor vans can deliver parcels containing purchases from several departments; and so on. It saves also in buying: for the quickness of its turnover and its general strength make its credit good; and it is able to obtain at least as favourable terms as an ordinary wholesale dealer from the producers, whether the goods are made under contract to a special order or not."

The quickness of turnover, to which Marshall refers in the paragraph just quoted, deserves special stress in a discussion of the competitive economies of the Department Store: for as a result of it, the minimum of capital is locked up at any time in merchandise inventories; the minimum of space required for warehousing goods. On both of these points, the

small retail store with a slower turnover is at a disadvantage, when compared with the Department Store: which reflects itself in a tendency to enhance the costs of operation of the smaller store. But we imagine that the Committee has already satisfied itself upon this subject, through the work of its own investigators.

Besides these economies in ground-rent, staff, services, purchasing and rate of turnover, the large Department Store has also this natural advantage over smaller competitors, that the vast scale of its operations enables it to secure the services of the most expert accountants, cost accountants, statisticians, etc., and to place these services at the disposal of all department managers alike. The Store is thus able to furnish the department managers with an almost perfect continuous analysis of, and check upon, their operations; and to do this without in any way curtailing the managers' freedom. This enables them to discover and deal with (or, in certain cases, eliminate without delay) those operations which are unprofitable; and to make the most of operations along profitable lines. Amid the unstable market conditions of the present time, such continuous checking is an indispensable guide from day to day, if unnecessary loss is to be avoided.

No department manager could possibly provide himself separately with these services, without incurring a ruinous departmental overhead. Yet, when the cost of such services is distributed over all the departments in a Store, it is by no means a heavy burden. The combined figures representing aggregate salaries paid for professional services such as these above-mentioned, in the case of our own Company during 1933, represented only about one-half of one per cent of the aggregate value of sales by this Company, in its retail stores.

Just as the department manager in a Department Store could not provide himself separately with these expert services, except at a cost that would be ruinous, so too (despite the good work done by Schools of Business Administration in some Universities, and by some Associations of Retail Merchants, in the simplification of cost records and inventory records, etc.), no retail merchant, if he is operating on a scale much smaller than that of a great Department Store, can secure these services economically for his own business. Here is yet another instance of the fact that, in order to be able to make use of modern business technique in its highest form, a merchandising organization must have reached a certain minimum scale of operation; and that, if it is unable, by reason of its limited size, to make full use of this technique, its cost of operation is likely to be enhanced on this account.

*The book's full title is—"Industry and Trade: a study of industrial technique and business organization: and of their influences on the conditions of various classes and nations." The position of the Department Stores (with special reference to those of North America) is discussed on pages 296, 297 and 298, of the First Edition of this book.

STATEMENT TO THE COMMITTEE

quite apart from the practices that may be charged against particular Companies (with or without justification), we imagine that there is no serious question as to the Department Store, considered as a *form of merchandising organization*, is an advance upon earlier ones, and is productive of economies in the servicing of merchandise from producer to consumer, that could otherwise have been secured.

2. Special Services Offered by the Department Stores.

But the Department Stores in Canada have not been the means of bringing economies within reach of Canadian purchasers at retail: of narrowing the spread "between the prices received for commodities by the producer thereof, and the price paid by the consumers therefor." While maintaining what we have seen—a relatively small expense ratio, they have also provided services to the purchaser which, in the nature of the case, a great many smaller organizations are unable to render. These services are obviously responsible in a large measure for what Marshall has described, in a passage already quoted, as "that highest form of advertisement, which comes from the recommendations of one consumer to another." Without wishing unduly to stress them (and without pretending to describe them exhaustively) we think that it may be well, at this point, to enumerate some of them.

The great Department Store makes available to the public merchandise of the widest possible variety, from all over the world. The public is able to wander at will through the Store, without being subjected to any importunity by the salespeople: it is a cardinal rule, in a well-conducted Store, that no one shall be importuned to buy. The Store provides an education (in the way of fashion information, knowledge of the possibilities of house-furnishing and interior decoration, of house-keeping, food-preparation, of labour-saving devices, of new products of many kinds, of the fine arts) which a small organization lacking the resources, the means of information, and the world-wide contacts possessed by the Department Store, could not possibly provide: as everyone knows, large numbers of people have acquired the habit of spending time in the Department Stores, and follow closely their advertisements, merely for a view to keeping themselves up-to-date.

Not only has the Department Store rendered service to the public; it has also rendered a responding service to the Canadian manufacturer. It has served, over a period of many years, as a "proving ground" for new products, and for new styles in design; and has been able "to feel the pulse" of the consuming public, as that pulse could not have been felt, merely through the merchandising of these new products and new styles in design through numerous small retail stores. No small retailer is in position to test a new product on a complete cross-

section of the consuming public, in order to discover its reaction towards or away from it. If Canadian manufacturers had not been able to use the Department Store as a proving ground in this manner, they would certainly have been compelled to bear considerable risks, in the marketing of novel ideas, which would have added to their costs of operation. Moreover, they would almost certainly have hesitated to make commitments which (with the assistance of the Department Store) they have actually been able to make without much risk, on a basis of experimental knowledge: and their own progress would thus have been retarded.

3. In this connection, it should be added that when introducing to the public, from any source whatever, new goods, or new fashions in design, which are not of a proprietary character, the Department Stores have made it a practice to bring these new goods and new fashions in design to the notice of Canadian manufacturers, with a view to placing orders in Canada when possible: and in this manner the Department Stores have been the means of furthering diversified production in Canadian industry; with a resulting enrichment of Canadian life, with a corresponding enlargement of Canadian industrial technique, and with direct financial benefits to Canadian manufacturers and wage-earners.

4. Incidentally to this, the Department Stores have made shopping convenient and easy, by means of such an arrangement of stocks, as at the same time enables the customer's choice to be made with a minimum of confusion; and enables a large number of wants to be satisfied simultaneously beneath a single roof. For the many departments in a Department Store are virtually separate shops, each of them under a carefully selected and experienced manager with specialised experience—and these separate shops are united for administrative purposes, with a view to providing the customer (who may be purchasing from half a dozen departments in a single morning) with standardised services in such matters as charge or deposit accounts, record-keeping, shopping assistance, parking facilities, and free parcel delivery.

5. Elaboration of these services has led to the creation of some of the greatest telephone order systems in existence, and to the maintenance, in connection with telephone orders and orders received by mail, of Shopping Services staffed by women shoppers of taste and experience, whose instructions are, in the performance of their daily duties, always to maintain the customer's viewpoint.

6. The confidence of the customer, to whom in any case these services would have an obvious appeal, is strengthened by three further provisions:

(a) The care with which advertising is scrutinised, to make certain that all goods advertised shall be described with scrupulous accuracy (indeed, our own Company maintains a Research Bureau, with the double purpose of ensuring that all advertisements are

STATEMENT TO THE COMMITTEE

accurate, and of testing and ensuring the qualities of merchandise—for which purpose it is equipped with modern laboratory facilities and scientific apparatus, and has a specially trained personnel);

(b) The maintenance of facilities for exchanging goods that are unsatisfactory to the customer, *after the goods have been delivered in the customer's home and paid for*; and

(c) General adherence to the principle that when an issue rises as between a merchandising department and the customer, the customer's explanation is accepted, and his interest is treated as paramount in the settlement: or (again to quote from Marshall) "the rule that no small gain should be sought through action, that tends to cause complaint; and that every doubtful question between a customer and a department, shall be decided in favour of the customer: no one is to be persuaded into an unwilling purchase."

These, and incidental additional facilities too numerous to mention, are responsible for the fact that millions of persons, in the large cities in which Department Stores have been established, habitually look first to the Department Stores, for the satisfaction of a considerable proportion of their wants.

3. Extension of These Services, through the Mail Order Houses Maintained by the Department Stores.

But the service of the Department Store is not confined to the population living in the metropolitan areas, or to customers who, being unable to come personally to the Store, can directly make use of the Shopping Service; for this Company maintains a large Mail Order organisation; and while its sales in its retail stores are far greater, both in bulk and in aggregate cash value, than its mail order sales, it is nevertheless probable that its mail order business has been the means of satisfying needs much more sense, and more directly dependent upon this Company for their satisfaction, than the needs ordinarily satisfied by its retail store business.

In this connection the Committee is invited to consider for a moment the part that the Mail Order Houses have played in the development of Canadian civilisation on the frontiers of settlement—in northern and western Canada particularly—during the past forty years.

Within this period (as shown by comparison of the Census of 1891 with that of 1931) the rural population of Canada increased by slightly more than 1,500,000 persons—from 3,296,000 to 4,805,000. This increase represents an average of about 100 new persons *per day* continuously, from the beginning to end of the forty year period; and since in the latest of the four decades, that is, the ten years between the Census of 1921 and that of 1931, the rural population of Canada grew by no less than 369,000 persons, it will be seen that this process of rural settlement, at the same

rapid average rate, persisted during recent years, at least until the present depression.

The problem of providing for the physical needs of this vast number of persons settling in rural districts—many of whom were breaking ground for the first time, and building homes for themselves in districts previously unsettled—was one of the most difficult of the many that confronted Canada during this period of rapid expansion. It is not too much to say that, had it proved insoluble—had it not been solved satisfactorily, so as to provide adequate supplies of goods for the purchasers in remote and newly settled rural districts—the development of Canadian agriculture would have been very seriously retarded; with unfortunate consequences for the manufacturers in the cities also. During these years of very rapid development the Mail Order House was not only an indispensable source of supply to the farmers in thinly settled areas; it was also just as indispensable an outlet—as indeed it still is—for the Canadian manufacturer.

The mail order business of the T. Eaton Company was started some years before the beginning of this forty year period—in 1884. The Company's activities were extended into the mail order business as a natural development, and in response to demands that had grown up naturally—for customers had already formed the habit of writing in from all over Canada to request that merchandise of specified kinds be sent them; and it was an obvious convenience, alike to the customers themselves and to the Company, that the customers should be provided with a catalogue.

When the catalogue circulation of the Company's Mail Order organisation is analysed, it is found that 64.9 per cent of all these catalogues are circulated in communities of 1,000 persons or less all over Canada. From this it will be seen that, generally speaking, the mail order business serves the needs of a population which is *not* in touch with local stores that can carry large and varied stocks of goods. (Of the 10,377,000 people enumerated in the 1931 Census, no less than 5,180,000, or almost exactly half of the country's population, lived in communities of 1,000 persons or less.)

Thus, the mail order business may be said to exist primarily for the benefit of that half of the population of Canada, which finds in mail order facilities its one opportunity for regular access to merchandising organizations with a really varied stock of merchandise. The Mail Order House brings to the door of the settler in a remote district a range of goods of the type that he requires, as varied as that which he could obtain in a large city. The local store—if the settler has access at all to a local store, and on the frontiers of settlement this is frequently not the case—cannot and should not cover more than a very small range of goods on its shelves. We fancy that, to the local merchant in an outlying district, the Mail Order House appears very frequently, not in the guise of a competitor, but in that of a supplementary organiza-

STATEMENT TO THE COMMITTEE

; an organization whose availability permits him dispense with specialty lines, which would be slow in his trade, and which (depending in many cases for their saleability on a temporary turn of season) might easily prove sources of loss, if carried by the local store.

Competition between the Department Stores in the cities and retail merchants in the small towns surrounding them, has been intensified in the past generation. This is obviously due mainly to the building of good highways almost everywhere, and the current use of automobiles by almost everyone; which has widened the radius of action of many small purchasers, to the great advantage of the chain stores themselves, but to the disadvantage of the small retailers in small towns. In recognising this condition (for which the highways and automobiles, rather than the Department Stores themselves, must be held responsible) there is a danger that the great service rendered by the Department Stores through their mail order organizations to the small population generally, which has no direct contact with the large cities, may be obscured or neglected altogether. But the needs of the vast population living in the villages and on the farms, which has not access to well stocked retail stores of any kind, and the manner in which these needs have been met, are clearly the paramount consideration.

4. Handicaps of the Smaller Retailers.

The so-called "independent stores" are of many sizes. They range from the large and excellently managed retail business (at one end of the scale) with a successful record of fifty years or more, to the small store in a side street (at the other end of the scale), which is the hopeful "side-line" of a family with one or two wage-earners providing the main income; and which the wife and children "mind the shop" while the real breadwinners are absent in the factory.

It is almost impossible to generalise about institutions which differ so profoundly. Standard accounting practices in the former, a long experience in merchandising, the goodwill of a closely defined section of the public, and adequate supplies of working capital, may give it an enviable stability; while in the latter (although the fact that no sales clerks are employed at wages, and "minding the shop" is a spare-time avocation of the family, makes for a certain stability) the very small retailer's existence is always precarious.

Lack of experience even of elementary book-keeping methods, lack of experience in merchandising (and often the desire to realise that merchandising must nowadays be regarded as a skilled occupation), incautious extension of credit to customers, the fact that the public has never been in the habit of coming to the store for satisfaction of its needs, and the possession by the small merchant of quite inadequate working capital, all of these things may well doom the little store that has been started

hopefully, with the small savings of a lifetime, to a swift and inevitable extinction.

In this connection the following quotation, which is taken from the latest edition of the Encyclopedia Britannica, and appears there under the caption "Retailing," is illuminating: "The volume of retailing carried on by small independent stores is exceedingly large because it has been easy for anyone with very small capital to engage in retailing. But out of over 100 independent retail stores opened during the past 25 years, not over 10 have been really successful. A recent survey made by the University of Buffalo revealed that of 7,225 independent retail grocery stores which engaged in business in Buffalo between 1918 and 1926, only 242 had survived—a mortality of approximately 97 per cent!"

(While it may be urged that the results of a study conducted in the United States are hardly to be regarded as evidence in a purely Canadian problem, nevertheless, there is little reason for doubt that conditions on this side of the border have not differed very greatly from those discovered a few miles on the other side of the border. The Buffalo figures are evidently quoted, on the high authority of the Encyclopedia, as representing a fairly general experience.)

The rapid succession of tenants in a large proportion of our retail stores is the natural consequence of the ventures into retail merchandising of many persons who, from lack of skill and experience, have had from the beginning, practically no chance of ultimate success.

The slow drifting into bankruptcy, too frequently characteristic of those retail stores which are started with inadequate knowledge and resources, shows in itself that whatever may have been the mark-up on the goods sold there, such stores have lost, with every sale made across the counter, a proportion of their working capital. No trade depression is required to put them out of business; though conditions of depression may not unnaturally intensify their difficulties.

A return of the Dominion Bureau of Statistics, showing the fluctuations from year to year in the number of Commercial Failures among Retail Traders in Canada, actually bears witness to the steadily increasing number of such failures, during the years of great prosperity which preceded the present depression. The figures are as follows:

TABLE 4

YEAR	NUMBER OF FAILURES
1926.....	805
1927.....	814
1928.....	884
1929.....	1,100
1930.....	1,204
1931.....	1,102
1932.....	1,172
1933.....	1,089

STATEMENT TO THE COMMITTEE

Thus it appears that, between 1926 and 1930, the number of failures per year was increasing continuously; that the yearly total rose almost exactly by 50 per cent (from 805 to 1,204); and that in no year subsequent to 1930 has the number been any larger than it was in that year.

So long as anyone who has a few hundred dollars saved for the purpose is free to become a retail merchant, in almost any line of trade, it is inevitable that failure will overtake a very large percentage of small retail enterprises.

5. Small Number of Households Served by the Independent Retail Merchant.

This record of commercial failures is (it will be admitted) somewhat *less* startling, when it is realised how small a number of families is served, on an average, by each individual retail store; and the consequent limitation on the volume of business, out of which the small retailer must, as a rule, make a living. A comparison of the number of retail merchandising establishments in Canada, with the number of households for whose needs they provide, makes this abundantly clear.

The number of households enumerated in the Census of Canada, 1931, was 2,266,724. The number of retail merchandising establishments enumerated in the Memorandum on Merchandising in Canada (Dominion Bureau of Statistics, 1930) was 125,002. This is an average of a very little more than eighteen households per merchandising establishment. If the number of Department Stores and chains were to be abstracted from the total of retail establishments, and if the proportion of the public which is served by the Department Stores and chains were abstracted from the total number of households, the number of families per independent retail merchandising establishment would obviously be still smaller than this. The smallness of the resulting figure is so startling, that we make no apologies for bringing it to your Committee's attention.

It appears from the Memorandum on Merchandising in Canada (1930), already mentioned, that in the year 1930, 146 department stores conducted 12.82 per cent, and that 8,476 chain stores conducted 18.29 per cent of the retail transactions in Canada for that year. The number of independent retail stores in Canada according to the Memorandum was, in 1930, 116,380. When appropriate allowance is made for the business conducted by the department and chain stores, it appears that the number of households, on an average, whose purchasing was actually available to keep each of the independent retail merchandising establishments in business was slightly less than $13\frac{1}{2}$; a situation which should be brought home forcibly to anyone with limited means and small experience, who is proposing to engage in retail trade.

The knowledge that, on an average, the business of rather less than thirteen-and-a-half households is

all that is available to provide one independent retail merchant with a sales outlet and an income, would have been quite enough (if it had been available earlier) to deter many from entering the retail field, who have actually done so to their own detriment during recent years, and thus lost the savings of a lifetime. There is, perhaps, no better example to be found than in this figure, of the prophylactic influence of statistics, properly published and understood. Your Committee can, we believe, render no greater service to the small retail merchants, and to persons contemplating becoming retail merchants, than by causing them to realise the significance of the facts disclosed by the memorandum of the Dominion Bureau of Statistics.

Meanwhile, for the present purposes of your Committee, perhaps the most outstanding fact in the Census of Retail Merchandising is this:—*that even if there were no Department Stores in Canada—even if the chain store had never been introduced here—there would still, on an average, be but eighteen households, from whose business the retail merchant could hope to gain a livelihood.*

Is it possible that the retail merchants of this Dominion, in a field thus overcrowded, could have escaped the great embarrassments of which they complain to you?

6. Effect of Recent Changes upon the Smaller Retailers.

The smaller retailer has certain distinct advantages over the large retailer, which will be discussed later in this statement. It is, of course, essential under modern conditions that even a small business should be managed efficiently, for the day has passed when an inefficient man conducting any kind of business can hope to make money, as may have been sometimes possible under the conditions of a generation ago. The success of any business at the present day must depend to a very large degree upon the efficiency with which it is managed, and upon the provision that is made for the continuation of such efficiency of management, as the passing years involve changes in its personnel.

There are four circumstances affecting the smaller retailer, which have been much in evidence of recent years, and of which special mention should be made. The first of these is the changing level of commodity prices. The second is the changing influence of fashion. The third is the changing character of transportation. The fourth is the changing distribution of our population—the process that is sometimes, though not quite adequately described as “the drift to the cities.”

(i) The Changing Level of Commodity Prices.

With regard to the movement of commodity prices, as everyone knows, the present generation has witnessed both the most drastic inflation and the most drastic deflation ever known in Canada.

STATEMENT TO THE COMMITTEE

From 1914 to 1920, wholesale prices rose by no less than 138 per cent. Since 1920 there have been convulsive declines. From 1920 to 1922 the wholesale price index fell by $37\frac{1}{2}$ per cent. From 1922 to 1933 there was a further fall of 30 per cent. The result of these two declines was, in general terms, cancellation of the wartime increase in prices. In 1933, the fall in the wholesale price index had gone so far, that it was within 3 per cent of the 1914 figure. In order to realise how these changes have affected the competitive position of the smaller retailers, we must recall a distinction between the Department Stores and their independent competitors, which has already been mentioned. Because the Department Store has a relatively rapid rate of merchandise turnover, while that of the smaller retailers is relatively slow, there can be no general change in wholesale prices which does not affect their competitive position, vis-a-vis one another.

During a period of inflation, when both the Department Stores and the smaller retailers are purchasing in a rising market, the balance of advantage is *against* the Department Store, and *in favour* of the smaller retailers, as far as the rate of merchandise turnover is concerned. For so long as the wholesale prices of merchandise are rising, it follows that the larger organizations, with the relatively rapid rate of turnover, having recently replenished their stocks, have the right under the conditions least advantageous to themselves; and the smaller organizations, with slow moving stocks purchased earlier, when prices were lower, may thus find themselves enabled, *owing to their slow rate of turnover*, to undersell their large competitors. This was a not uncommon experience during the War years, when the small retailer (provided he did not mark-up his merchandise extravagantly) was in a relatively strong position.

But in a time of declining prices, the conditions are reversed. For when both the Department Stores and the smaller retailers are purchasing on a falling market, it is the Department Stores, with their rapid rate of turnover, which have, as a rule, replenished their stocks the more recently, thus taking full advantage of the fall in prices; and in proportion as the stocks of the smaller retailers are habitually slow to move, they find themselves inevitably with merchandise on their hands which, having been purchased when prices were high, must be sold much lower, when prices are low.

This is essentially what has been happening during the present depression; as it also happened from 1920 to 1922. The large Department Stores, whose competitive position, as against the smaller retailers, was slow moving stocks, was weakened somewhat by rising prices during the War years, naturally strengthened that it was strengthened in the deflation period; this, not as a result of any new policies that they adopted, but merely because they were still organized on a basis of rapid turnover.

(It must not, of course, be supposed that the fall in commodity prices during the past few years has been a *positive* advantage to the Department Stores; it has been a very great embarrassment to them. Every retailer finds it difficult to make profitable sales on a falling market, for some of his merchandising costs are not easily made amenable to control. What it is intended to convey here, is that in a falling market the Department Store suffers *somewhat less*, because its rate of turnover is rapid, than it would suffer if its rate of turnover were slow; while the difficulties of the smaller retailers are somewhat increased by their slow rate of turnover.)

This change in the relative advantages in competition with one another, of the Department Stores and the smaller retailers, occurring at a time when all inventory values were shrinking (with a consequent weakening of the credit position of any merchant with a slow moving stock in trade), subjected the smaller retailers to additional pressure; for at the same time that sales were becoming more difficult, needed extensions of credit were becoming harder to negotiate.

(ii) The Changing Influence of Fashion.

We turn to the second of the four influences enumerated above, that of fashion.

Everyone is well aware that fashion to-day plays a more important part in guiding consumer purchases than it has ever done in the past; and that fashion influences a larger section of the public at the present time than it has ever done before. To this, in a large measure, may be traced the so-called "hand to mouth buying," which increasingly characterizes modern merchandising.

With the growing circulation of fashion magazines (and these affect taste in house-furnishings and commodities of many kinds, as well as taste in wearing apparel), and with the regular resort of practically the whole population to moving picture shows, the influence of metropolitan fashion trends, and of changes in metropolitan taste has steadily spread; and there is scarcely to be found a village, even in newly settled territory, which is immune from this influence to-day.

What has not so generally been realised, is that this alteration in the public taste has created a new problem for the smaller retailers—at least in all those lines of merchandise (and the number of them is increasing) which are subject to fashion changes.

Since the crux of the situation is to be found in the case of stores selling apparel, this case may be selected as a convenient illustration. Not very long ago, there were large areas in which apparel stores could stock standard lines of goods with the assurance that, although this merchandise might move into consumption comparatively slowly, patience on the part of the retailer would be rewarded, sooner or later, by the successful disposal of his stock; and this without any undue price concessions on his part.

STATEMENT TO THE COMMITTEE

Now that the situation is so largely dominated by fashion changes, however, there are some classes of trade in which the retailer cannot safely carry standard lines.

According to figures collected by the Dominion Bureau of Statistics, the proportion of failures has been slightly more than three times as great among apparel stores, during the past eight years, as among other independent retail stores in general. This is a rough measure of the difficulty which retailers catering to the demands of fashion have recently had to face. But while these merchants have been conscious of increased economic pressure, we doubt whether they have, as a rule, appreciated at all fully the fundamental reasons for the pressure to which they have been subjected, one of which is this dominance of metropolitan fashion changes over the population as a whole. The readiness of some of the witnesses who have testified before your Committee, to blame the Department Stores for misfortunes which are largely the result of a change in the habits of the public, is an excellent example of this. The Department Store has been obliged to face exactly the same problem.

Merchandise which is a best seller to-day, because it answers to the latest whim of fashion, may be for all practical purposes unsaleable a month or two months hence, because in the meanwhile the public taste will have changed. Part of the retailer's capital is locked up in such merchandise, and so he must dispose of it; but in order to dispose of it, when once the fashion has veered in a new direction, he finds himself compelled to tempt the reluctant consumer by mark-downs; and these may sometimes involve a tremendous concession in price.

The cost of merchandising has unquestionably been increased on this account; and moreover, this cost must be recovered from the retailer's *initial* sales of a new line; for the subsequent unavoidable mark-down, when the goods are no longer up-to-date, may bring him little more than the delivered cost of them—and his bargain prices, which are not within his own control, will, on occasion, represent less than their delivered cost.

The larger retailers, including many independent retailers, are able to keep more closely in touch with the passing currents of fashion than the smaller retailer can, as a rule, hope to do. They are also accustomed to the quick clearance of stocks which have not sold as freely as was anticipated, and the quick replacement of these stocks by merchandise which is in brisk demand.

(iii) The Changing Character of Transportation.

The third of the three influences above-mentioned is modern transportation. Attention was drawn, in an earlier section of this discussion, to the building of good highways almost everywhere, and concurrently, the use of automobiles by almost everyone, in the decade immediately following the War. There is no

need here to labour the point that as transportation has become easier for consumers generally, many have been disposed to carry part of their custom to larger stores at a distance.

Until concrete roads and fast automobiles, taking the place of dirt roads and buggies, made transportation so convenient, the local retail store (no matter whether it was situated in a country town, or in the suburbs of a large city) had a special advantage in its proximity to the consumers of a given neighbourhood. But this advantage, depending as it did upon the badness of country roads and the slowness of urban transportation, was obviously not of a permanent character and has substantially diminished.

(iv) The Changing Distribution of Our Population.

The last of the four influences, above mentioned, is the shifting of population.

While the population of the Dominion as a whole increased by no less than 18 per cent between 1921 and 1931 (from 8,788,000 to 10,377,000) this great increase was accompanied by a shifting of population so profound as actually to diminish the number of inhabitants in many parts of the country.

Thus, if we study the reported population of Electoral Districts, we find that in the whole of Canada no less than 58 of these Districts, with a combined population in 1921 of 1,816,000, lost a proportion of their inhabitants between 1921 and 1931. The aggregate of their losses was about 81,000 persons; which represents an average diminution of about $4\frac{1}{2}$ per cent, in the population of the 58 Districts concerned. Every one of the Provinces is represented in the list, excepting only British Columbia.

While, as everyone is aware, these losses of population occurred for the most part in certain rural districts, which were being left behind in the march of progress, it is important to note that they were not entirely confined to the countryside. When we study the movement of population, in cities, towns and villages of 1,000 persons and over, we find that between 1921 and 1931 there were losses of population in no less than 109 of these communities; and that a list of them includes places as important as Amherst (N.S.), Grand Mere (P.Q.), St. Thomas and Brockville (Ont.), Portage la Prairie (Man.), and Prince Rupert (B.C.).

The aggregate population of these 109 communities was, in 1921, 326,135, and their aggregate loss of population during the succeeding decade was 22,712. The diminution of population, in the 109 communities taken together, was thus almost exactly 7 per cent. In extreme instances, of course, it was a good deal greater than this figure.

The 58 Electoral Districts, and the 109 village and urban communities, whose recent population statistics are here summarised, represent about 20 per cent of the entire population of the Dominion; and thus,

STATEMENT TO THE COMMITTEE

nably, provide the business of about 20 per cent of the 125,000 retail merchants in the Dominion. Evident, therefore, that (so far, at least, as this proportion of the country's retail merchants is concerned), the influences of changing commodity, of changing fashions, and of changing transaction methods have been intensified, *as a result of actual shrinkage in the size of the markets to these retail merchants look for a livelihood.*

Unfortunately for many local stores, it has happened in our generation, these four great developments occurred simultaneously. As soon as the fact is recognized, we have no reason to regard the difficulties of the small retailer as mysterious in origin, but look for "a villain in the piece."

It is apparent that we are dealing with a great change of social change—a change as fundamental as which produced the factory system—and though of the consequences of this change are to be expected, no man or group of men can be said to have thought it about.

The truth is, that there have been two main stages in the so-called Industrial Revolution. The revolution in manufacturing methods occurred in the nineteenth century; the revolution in merchandising methods is coming in the twentieth.

In the nineteenth century, the handicraftsman was gradually replaced by the machine operative, working in a factory. Hundreds of thousands of handicraftsmen, ousted by the new machines, were made to look for the records of scores of Parliamentary Commissions, in a dozen countries, are filled with stories of hardship. But while this tremendous and far-reaching change was occurring in the system of manu-

facture—while the system of mass production was being brought into being—there was at that time no such revolutionary change in merchandising methods. Mass distribution had not yet even been conceived. Wholesale and retail merchants continued to do business along established lines. In a period of tremendous industrial upheaval, their position was unaltered.

During the twentieth century, the merchant has found himself in much the same position, as was the manufacturer in the nineteenth; for mass distribution has come into being, along lines strictly parallel with mass production; and the new revolution in merchandising methods has been just as inevitable as was the revolution in methods of manufacture, which preceded it.

Large-scale merchandising operations were bound, for economic reasons, to give better service and more efficient service to the public, under the new conditions emerging at the close of the nineteenth and the beginning of the twentieth century, than small-scale merchandising operations had been able to give, before this. The replacement of small- by large-scale merchandising began, as everyone knows, a considerable time ago; but in the pre-War years it was very gradual. Since 1918 it has been accelerated.

Just as, in the nineteenth century, the change from the workshop to the factory (which caused difficulties for the handicraftsman) brought undoubted benefits to the people at large; so now has the change from small-scale to large-scale merchandising (despite the difficulties that it has involved for some small retailers) brought undoubted benefits to the people at large. It has done so by providing the public with a wider range of choice, among stocks of a more up-to-date character, quoted at a lower range of prices, than would otherwise have been possible.

STATEMENT TO THE COMMITTEE

PART III. POSITION OF THE DEPARTMENT STORES IN TIMES OF DEPRESSION

1. Nature of Recent Allegations Against the Department Stores.

IN THE foregoing pages we have attempted to show that the developments, of which complaint has been made to this Committee, are properly to be regarded as different aspects of a great and irresistible economic process which is at present under way—a process which is affecting the relations of all kinds of retail merchandising organizations to the public and to one another, but which none of them is in a position to dominate.

It is against this background, we submit, that the criticisms of the Department Stores, which are now current, should be studied.

During the course of your enquiry, a number of allegations have been specifically made against the Department Stores; and before proceeding further, we think it well to summarise these allegations as well as we can do so; to distil the testimony submitted already, with a view to picturing the supposed "anti-social" consequences of Department Store operation in Canada.

We do not propose, however, in this memorandum, to deal with specific instances which have been cited by witnesses. Since each such specific instance relates to some one Store, the responsibility for meeting the charge is presumably claimed by the Store concerned. Moreover, the perusal of evidence already submitted to this Committee shows that a good many statements of witnesses, which have been placed upon the Record, are merely based upon hearsay. We take it that we shall be well-advised to leave it to the Committee to decide which of these specific allegations really deserve its attention; and so to leave the Committee to decide which of these allegations call for comment or rebuttal, by the Stores against which they have been made.

All that we propose to do here is to review broadly "the case against the Department Stores," as it appears in the printed Record.

A single observation is perhaps in order, by way of preface. It is noteworthy that little or no criticism has been directed by witnesses against the Department Stores, in respect of what are, perhaps, their two most important relationships; i.e., with the buying public, and with their own employees.

In the first place, it has not been alleged generally, that the public is being badly served by these organizations. It appears, broadly speaking, to be common ground, among those who have appeared before this Committee, that through the Department Stores consumers are provided with a very varied choice of goods, of dependable qualities, at very reasonable prices. (Indeed, most of what has been stated or inferred by witnesses, with regard to the

supposed policies of ruthless price-cutting by the Department Stores, might well be regarded, from another standpoint, as a tribute to the good service that these organizations have afforded the public, by making their merchandise available to the public at surprisingly low prices—whatever consequences may have flowed in other directions from these policies.)*

In the second place, it is not alleged that the sales-force employed by the Department Stores is being underpaid or badly treated. (One witness did, it is true, give as a reason for the low selling price of the Department Stores the low wages paid by them to their sales staffs: but, when asked if he had the comparative statistics with him, which would prove or disprove this statement, he replied in the negative. If he had put in evidence the figures quoted in the "Memorandum on Merchandising in Canada (1930)", the force of his contention would, to say the least, have been weakened considerably.)

The charges made against the Department Stores seem to resolve themselves into three broad groups of allegations: the first, that the Department Stores have, by certain practices outside the sphere of ordinary competition, rendered a dis-service to the smaller independent retailers; the second that, mainly but not altogether by means of unfair bargaining practices, they have rendered a dis-service to manufacturers and other sources of supply; the third that, through the great pressure which they have brought to bear on manufacturers and others to reduce costs and prices, they have rendered a dis-service to the workers employed in the factories and elsewhere, who produce the merchandise that they require.

The various practices reprobated under each of these three main heads may be listed as follows:

(i) Supposed Dis-Service to the Smaller Independent Retailers.

The first of these alleged evils is mainly traced to two practices, which are charged against the Department Stores;

(a) By means of so-called "loss leaders," the public is attracted into their establishments. This device

*Certain exceptions to this generalisation should, however, be noted: both as to the (supposedly) deceptive character of cheap sales, and as to the monopolistic manner in which the Department Stores are said to have intruded in order not to sell cheaply;

(1) It is stated that, in large and well advertised sales, purchasers are "baited" by the offer of a few high quality goods at low prices, which are in practice obtainable only by the very few; and are induced in this way to purchase other goods of less quality, that leave a handsome profit to the Department Stores. We shall be glad to be confronted with any instances that may be found in the records of our own Company, in which the purchaser can be shown to have been deceived, by means of sales conducted in this manner.

(2) It is also said—and this is directly contrary to the general accusations of predatory price-cutting, which have been literally buried at the Department Stores by many witnesses—that the Department Stores have tried to prevent independent merchants from selling goods at reasonable prices, in order that they themselves may be permitted to sell the same goods at unreasonably high prices. Again, we shall be glad to be confronted with any instances that may be found in the records of our own Company, in which it can be shown this was done.

STATEMENT TO THE COMMITTEE

stated) wrecks the retail market for any commodity which is selected as a "loss leader"; and all retailers, stocking the same article, are made poorer. For they must either follow suit, and also at a loss, or else resign themselves to not selling at all.

By securing "distress goods"—that is, merchandise obtained either from bankrupt stocks, or inactive producers who find themselves obliged to turn their stocks into cash immediately—the Department Stores (it is said) are enabled to sell such goods at prices which, though profitable to the Stores themselves, are, from the standpoint of ordinary retail merchants, impossible to meet. The retail market for all merchandise is thus from time to time upset; the public, expecting further bargain sales of one kind from the Department Stores, is deterred from making its purchases in other establishments.

By securing special prices, rebates or discounts from the manufacturer or jobber, the Department Stores (it is said) are enabled continuously to sell many different lines of goods at prices, which are at the time profitable to themselves, and yet so low that independent retail merchants, purchasing on a large scale, cannot follow suit and quote the same prices.

By means of special pressure upon certain manufacturers, the Department Stores (it is said) have prevented those manufacturers from giving the same special prices, rebates or discounts to groups of independent retail merchants, who have banded themselves together with a view to massive buying at the lowest prices, as the Department Stores are alleged to have obtained.

Each of these practices, which are alleged against the Department Stores, has been regarded, by spokesmen of the smaller retailers, as constituting unfair competition.

Supposed Dis-Service to Manufacturers and Other Sources of Supply.

The second of these alleged evils is traced mainly to the practices, which are charged against the Department Stores;

By disseminating among manufacturers misinformation as to the quotations obtainable from other sources, for merchandise of a given kind, some of the buyers employed by the Department Stores are said to have forced such manufacturers to take orders at unremunerative prices;

By following the practices outlined in Sub-section (i), (a) and (b), above, the Department Stores are said to have demoralized the retail markets generally, thus destroying accepted standards of prices and values, and creating grave uncertainties for the manufacturer;

By holding out to manufacturers a deceptive prospect that they may make large sales through

the medium of the Department Stores, buyers acting for these Stores have been enabled (it is said) to secure very low quotations for merchandise, which were not justified by the small quantities actually purchased;

(h) By systematically giving large orders continuously to certain manufacturers, and leading them gradually to disregard other sales outlets, the Department Stores are said to have placed these manufacturers in a weak bargaining position—with the result that they have been unable to resist demands for ruinous reduction of prices, when the Department Stores saw fit, at length, "to put on the screws;" so that manufacturers have been compelled, by this means also, to take orders at unremunerative prices;

(i) By the pirating of designs (which the manufacturers have submitted in all good faith to the Department Stores, in an effort to secure orders), and by procuring the execution of such designs in other factories elsewhere, some of the buyers acting on behalf of the Department Stores are said to have been guilty of unpardonable conduct.

(It is further suggested that these practices, for most of which—if they can be shown to have occurred—immediate responsibility rests upon the buyers, should really be laid at the door of the Department Store management itself; since it is the pressure alleged to have been exercised upon the buyers by the management, which is supposed in turn to have led the buyers, anxious to make a good showing for themselves individually, to resort to these unjustifiable measures in certain cases.)

(iii) Supposed Dis-Service to Workers Employed in the Factories and Elsewhere.

The third of these alleged evils is said to consist in the pressure exercised upon manufacturers and others by the buyers of the Department Stores (in the various ways outlined above); for this is supposed to have had a series of secondary consequences as follows;

A general breaking down of wage rates in the factories and elsewhere;

A general increase of pressure on the workers by the management—the so-called practice of "speeding up"—especially when a large "rush" order is placed with a manufacturer who needs the business, by the buyer for a Department Store;

A general deterioration of working conditions in the factories and elsewhere; and

A tendency for the worst paid of the workers to supplement their wages by "going on relief;" thus transferring a part of the burden of their maintenance from their employers to the public authorities.

These appear to be the charges against the Department Stores, which emerge from the testimony already submitted to your Committee. The remainder of this memorandum will be concerned, mainly, with

STATEMENT TO THE COMMITTEE

a discussion of them. But it will be well, first, to glance at a complaint against the Mail Order Houses, which persistently recurs in evidence already submitted.

2. Nature of The Case Against the Mail Order Houses: and Considerations in Rebuttal.

There is another charge, not against the Department Store as such, but against the Mail Order House that it maintains—the charge that the Mail Order House competes unfairly with the local retail merchant in the territory that it covers, since it does not pay local taxes in that territory, which the local retail merchant is bound to do: since (in the words of those who feel themselves aggrieved) “the Mail Order House takes a profit *out* of the territory, and brings nothing *in*.”

While we have refrained, in the Chapter preceding this, from entering a defense against the charges enumerated against the retail operations of the Department Stores, we think it well to deal with this allegation in passing, since it is not an integral part of the general indictment against the Department Store, and is disconnected from the main thread of our argument.

We do not for a moment believe that, upon due consideration, your Committee will sustain any plea as specious as this; and for the following reasons:

(1) In the first place, the local retail merchant is under no unfair handicap in this competition, since the Mail Order House pays local taxes, in all of the centres of distribution at which it maintains offices or warehouses: and these local taxes are an element in all its costs of doing business.

(2) In the second place, as has already been pointed out above, the Mail Order House sells its merchandise, for the most part, in districts in which there are no local merchants within easy reach, possessing a varied stock of merchandise of the kind needed, by the people in sparsely settled districts.

(3) In the third place (in as much as the districts in which sales are mainly secured by the Mail Order House are those which lack proper local facilities for retail purchasing), the claim that the Mail Order House takes profits *out* of the community but puts nothing *in* is clearly not tenable; for the Mail Order House is in many cases giving to that community a service of a kind which is essential to the maintenance of a civilised existence, and without which the community itself would quite possibly disintegrate.

(4) In the fourth place, very large purchases are made by the Mail Order Houses from factories in the smaller towns and cities, which thus benefit directly from this business.

(5) In the fifth place, if the principle were once to be admitted that everyone selling goods, in a locality other than his own, must pay his due proportion of the local taxes in the locality in which his

sales are made, an impossible situation would be created for all producers' co-operatives, and for all individual farmers who take their produce to sale in an organised market.

(6) In the sixth place, to fasten upon the Mail Order House a portion of the burden of local taxation throughout Canada (by means, for example, of a tax upon each mail order catalogue—as has been suggested by witnesses before this Committee)—might be to put the Mail Order House out of business in many sections of the country—for the profit per catalogue is so small, that even a small tax per catalogue might be sufficient to put it out of business: the alternative being to raise the prices of merchandise against the millions of consumers concerned; in which case the burden of the tax would not be borne by the Mail Order Houses.

To raise the cost of living against that half of the population of Canada, which lives in the sparsely settled districts, for the sake of a comparatively small number of local retail merchants, would, to say the least, be doubtful public policy.

From these charges against the Department Stores and the Mail Order Houses, we turn to consider for a moment the problems that confront the Department Store executive, and the general nature of his responsibilities—for it is possible that some of the evidence offered to your Committee has been based on a less than adequate appreciation of them. We believe that, in a perspective of his problems and responsibilities, it is also well to consider specially the part that a large retail merchandising organization may properly be expected to play, in the general interest of Society, during a period of severe economic depression—since it is against the depression as a background, that most of these allegations have been made.

3. Responsibilities of the Department Store Executive.

Without expressing it in words, the witnesses appearing before your Committee have imputed, not infrequently, to the Department Stores a threefold responsibility: firstly, towards their competitors in the field of retail merchandising; secondly, towards the producers of the goods for which they provide a retail outlet; and thirdly, towards the wage-earners employed in factories and elsewhere by these producers. (It has already been suggested, above, that throughout the testimony so far given, there is a singular absence of references to the most immediate of the Department Store's responsibilities; and to this we shall return.)

Meanwhile it may be said that, within certain limits, there is no doubt that the threefold responsibility does exist, which is attached by these witnesses to Department Store operation; but in order that criticisms of the Department Stores may be given

STATEMENT TO THE COMMITTEE

the weight that they deserve, these limits need clear definition.

There is, in the first place, such a thing as unfair competition. If, for example a strong retail merchandising organization were deliberately to bring about the destruction of a particular competitor of inferior strength, and if it were regularly to sell certain merchandise below cost in order to do so (recouping itself by the sale at a profit of other merchandise, in markets to which the weak competitor did not have access), public opinion would certainly condemn, and would rightly condemn this cut-throat policy. Indeed, the deliberate selection of a competitor for destruction is not essentially different in its nature from the deliberate selection of a person for destruction. (But it has not been suggested, at any point in the testimony, that any Department Store has done anything remotely resembling this.)

There is, in the second place, such a thing as unfair buying. If a strong retail merchandising organization, occupying a position of great strategic advantage in relation to some weak manufacturer, were deliberately to manoeuvre that manufacturer into a position in which he had no option but to accept the terms offered him by this retail establishment (whatever they might be); and if he were thus compelled to make and execute contracts so damaging to himself, that they would involve the destruction of his business, here again public opinion would certainly condemn, and would rightly condemn such a policy. (It is, of course, only necessary to state the case in order to show that no competent Department Store administration would ever pursue such a line of conduct; for the Department Store needs, above all things, an assurance that merchandise, of a kind that will find a ready sale, will continuously be available; and it is obvious that the destruction of a manufacturing concern, which would otherwise be capable of supplying continuously such merchandise, would be suicidal from the standpoint of the Department Store itself.)

There is, in the third place, such a thing as unfair pressure upon the wage-earners engaged in production. If a strong retail merchandising organization, exploiting a position of great strategic advantage in relation to some weak manufacturing industry, were indirectly to bring about the destruction of employee standards of living, *which could otherwise have been maintained*, it would not be difficult to rouse public opinion against such a line of action; and here again the public attitude would be justified. (Unfortunately, however, as events have shown, it is by no means difficult to rouse public opinion against the large retail merchandising organizations by declaring that such a destruction of employee standards of living has wantonly been brought about, *without making any reference whatever to the very difficult economic questions that must be faced, before such an allegation can be substantiated*. It is unfortunately necessary to add that

none of the witnesses who have given evidence before your Committee have, so far, faced these very difficult economic questions. As to the facts of the case, there is no doubt that there has been a widespread destruction of living standards during the depression. We wish presently to show, not only that the Department Stores have *not* been responsible for this destruction, but also that they have actually mitigated the consequences of the depression for the whole of Canada: for manufacturers and workmen, as well as for consumers.)

But it is one thing to recognise these responsibilities as we have just defined them: it is quite another thing to go beyond them, and to discuss the fall of prices and wages during the depression, as though there rested an obligation upon the Department Stores to satisfy themselves, before placing orders for merchandise, that manufacturers' costs are covered by selling prices, that adequate wages are being paid in factories, and that minimum wage laws are being observed in the spirit as well as in the letter. Some of the testimony that has been submitted to this Committee by witnesses does not fall far short of making this far-reaching and quite unwarranted assumption. It should be clear, however, upon a moment's reflection, that no retail merchant, whether in charge of a Department Store or of any other kind of establishment, has any right to demand that the producers of merchandise open their books to him; and that any request on his part, to be shown their records, would very properly be resented by most producers of merchandise.

With regard specifically to the maintenance of wage rates, it should be added, not only that the retail merchant is under no obligation to enforce the minimum wage laws in establishments other than his own, but also, that in each of the Provinces which have enacted minimum wage laws, there is a statutory body charged with the duty of enforcing them. In so far as the attention of this Committee has been directed to alleged infractions of provincial minimum wage legislation, we submit that it is not the retail merchants, but the statutory bodies concerned, whose conduct is being investigated.

We now turn to the responsibilities of the Department Store executives which may be regarded as primary;* i.e., their responsibilities to the public and to their employees. Of these we regard the latter as the more direct, since the public, if it is not well served by the Department Stores, can as a rule take its custom elsewhere—whereas the members of the working force employed by such Stores are dependent upon them, in most cases, for practically the whole of their livelihood.

So far as the public is concerned, we take it that the responsibilities of the Department Stores are the same as those of any other retail merchants: i.e., to

*Their responsibility to the share-holders of the Companies owning these Stores obviously need not claim our attention, since the share-holders are in a position to enforce these responsibilities themselves.

STATEMENT TO THE COMMITTEE

exercise great care in maintaining the quality of merchandise; to be very scrupulous in all statements made to the public, concerning merchandise exposed for sale, either by means of advertisement or by word of mouth across the counter; to maintain the widest possible range of merchandise, (so giving the public the maximum freedom of selection); and to pass on to the public, in the form of low prices, such economies as are obtainable by selective purchasing and efficient administration.

These responsibilities, we maintain, have been discharged faithfully by the Department Stores on whose behalf this statement is presented; and our claim that they have faithfully been discharged is made in full recognition of the possibility that, here and there, it may perhaps be shown that some individual employed by one or other of this Company's has not fully lived up to these responsibilities.

In any large organization, whether it be an army, a civil service, a transportation agency, a manufacturing concern or a merchandising establishment, instances will, of course, occur from time to time, when some subordinate fails to maintain the standards laid down for him by his superiors. Whenever such failure is detected in any one of such organizations (including our own), remedial measures are naturally taken; but an occasional failure will occur, which escapes detection at the time.

It should perhaps be added that this Company has on its payroll, in all, more than 27,500 people. The Company has every confidence that its store staffs, which have been recruited with great care, will stand comparison with any staffs of the same size, in any business organizations, anywhere. It is, of course, impossible to prove a blanket negative—demonstrate that in no respect has any member of this large organization failed to maintain the responsibilities that we have enumerated above. We may mention, however, that following the presentation of this Statement, we shall be glad to place on the Record of this Committee the full facts with regard to any transaction which, in the opinion of the Committee, calls for detailed investigation.

We turn now to the second of the primary responsibilities under discussion; that of the Department Stores to their employees.

It has already been mentioned that this Company has on its pay-roll more than 27,500 persons of both sexes. It is obvious from this figure that, when dependents of these employees are included with the staff itself, there is a population of not less than 73,000 people in Canada (men, women and children), which looks for its livelihood almost entirely to the Company.

This outstanding fact raises questions, not only with regard to the attitude of the Company as an employer (into that question we propose to delve at some length presently); but also with regard to the degree of skill and success that it has shown, in

maintaining the volume of its business, and so maintaining employment for the store staffs. We need not argue the point that if the Company's Stores had been incompetently managed, if they had permitted slow moving merchandise to remain on their counters, if they had neglected any legitimate means of maintaining the volume of their business, the results of any shortcomings on their part would immediately have been reflected in the dismissal of workers; and that these workers would have found it exceedingly difficult, at any time during the past four years—as, indeed, they would even now find it difficult—to secure alternative employment elsewhere.

Ever since the close of 1929, we have been living in a period without precedent: one in which the greatest service that an employer could render to his employees has consisted, not in welfare work of any kind (though this is of immense importance), nor even in the payment of high wages; but in his ability to face facts, to foresee trends, and to make the necessary adaptations of his business to changing conditions—in other words, his ability to provide work continuously for those depending upon him, under circumstances so difficult, that other employers have frequently found themselves unable to do this for their own staffs.

The policies of the T. Eaton Company, whose affairs are here under review, have consistently been directed to keep steady the volume of its sales, and so the size of its working force; and from the standpoint of the staff employed, these policies have, we consider, been justified by the results.

4. The Problem of Price Adjustment, Considered from a National Standpoint.

Up to this point, when any mention has been made of the depression, it has been treated specifically with reference to the fortunes of the retail merchant. We have already seen something of its impact upon retailers in general; and have noted that, under the circumstances of 1930-1934, it has inevitably caused special hardship to the small retailer.

But in an appreciation of the place of the Department Store in Canadian economic life, it is necessary to consider the depression from a much broader standpoint than this; for while our concern, so far, has been with the *consequences* of the depression for the retail merchant, it is no less important for us to consider *the part that the retail merchant is called upon to play*, during a severe depression, in the general interest of Society.

As we hope to show, his conduct may be such as to mitigate the hardship involved for the people as a whole; but in as much as he does do this, he can scarcely fail, if his business is a large one, to make himself unpopular.

The broad facts as to what has occurred, during the past few years, are widely known. Nevertheless, it may be well to recapitulate some of them briefly.

STATEMENT TO THE COMMITTEE

The decline in the total income of the people of Canada, measured in dollars, is obviously a feature of the greatest importance. The Table that follows gives the figures for the years from 1928 to 1932, together with an estimate for the year 1933, which has been obtained from Mr. D. C. MacGregor of the Department of Economics, at the University of Toronto.

TABLE 5

YEAR	INCOME FOR CONSUMPTION OR SAVINGS IN CANADA (in millions of dollars)
1928.....	\$5,703
1929.....	5,541
1930.....	4,873
1931.....	3,933
1932.....	3,223
1933.....	3,147

The first thing to be noted is that the national income of the people of Canada has been continuously declining since 1928. According to the preliminary estimate for 1933, the decrease amounts in all to more than \$2,500,000,000—a reduction of nearly 45 per cent. This is, perhaps, the simplest possible expression of the great economic adjustment, that has been thrust upon the Canadian people during recent years; for obviously such a tremendous change could not take place, without causing a great deal of distress, and even physical suffering.

If each man's income had been reduced proportionately, the strain of the depression would obviously have been less than in fact it was: the hardships would have been shared by the people as a whole. As everyone knows, however, our difficulties have been accentuated very greatly, by the fact that this strain was distributed most unequally between the different sections of the Canadian people.

As an example of this, we quote herewith the current estimate of the net product of Canadian agriculture, measured in dollars, during each of the past six years. (Except in so far as, in rare instances here and there, a farmer may possess some personal income from investment, the figures given below obviously represent the dollar income available to the farmers of Canada, for their household and personal expenditures).

TABLE 6

YEAR	NET PRODUCT OF CANADIAN AGRICULTURE (in millions of dollars)
1928.....	\$1,501
1929.....	1,034
1930.....	860
1931.....	538
1932.....	429
1933.....	430

Here it will be seen that, instead of falling by 45 per cent—the general average reduction of income for

the whole of the population—the dollar income of the Canadian farmers has fallen by more than 70 per cent—an actual decline, measured in cash, of somewhat more than \$1,000,000,000 per annum.

A similar picture is presented by the construction industries of Canada, which have also been very hard hit by the depression, as everyone knows. The Table presented below gives, for each of the years from 1928 to 1933 inclusive, the official total of the value of construction contracts awarded in Canada. (This may, for practical purposes, be taken to correspond with the income available for disbursement, by those connected with the construction industries).

TABLE 7

YEAR	CONSTRUCTION CONTRACTS AWARDED IN CANADA (in millions of dollars)
1928.....	\$472
1929.....	577
1930.....	457
1931.....	315
1932.....	133
1933.....	97

From these figures, it will be seen that the value of construction contracts reached a maximum of \$577,000,000 in 1929; and that the 1933 figure was less than this by no less than 83 per cent; or, in terms of cash, nearly \$500,000,000 per annum.

These instances could obviously be multiplied (as, for example, by citing in the same manner the facts with regard to the pulpwood and lumber industries). But it is unnecessary to multiply examples; for Agriculture and Construction illustrate the situation sufficiently clearly.

The Census of Occupations of 1931 states the number of persons occupied at that time, in Agriculture in Canada, as 1,128,000; and the number of workers occupied in Construction as 256,000; a total of 1,384,000 for these two groups taken together. (A very simple calculation shows that the number of persons dependent for their livelihood upon the good or evil fortune of these two groups of industries (including with the workers themselves those who are dependent upon them), is likely to be in excess of 3,600,000—a very substantial proportion of the population of this country. In a discussion of our problems, their interests must obviously be treated as of very great importance.)

What is the picture that they present? In a world crisis of unexampled magnitude, primary producers and producers of capital goods have found their purchasing power, measured in dollars, reduced to a small fraction of what it had been in more prosperous times. It has been proclaimed, and with truth, from every platform in Canada, that the main causes, at least, of this drastic reduction, were world-wide, and not amenable to control in this country. We merely

STATEMENT TO THE COMMITTEE

note here the facts of the reduction, affecting nearly four millions of our people. Workers in secondary industries, in manufactures for example, have not, as a group, suffered anything like so severely. Nor have those engaged in trade.

If the prices of goods offered at retail—clothing, boots and shoes, and furniture for instance—to the primary producers and the producers of capital goods, had remained at, or even near, the pre-depression level, the consequences of such rigid price stability, for these two great groups of workers, would have been almost too painful to contemplate. The situation has been eased for them to some extent, however, in one important respect—for there has been a quite considerable, though belated, fall in the retail prices of merchandise.

In the Table that follows we show the gradual decline of the Retail Prices Index, published by the Dominion Bureau of Statistics. The decline is in percentage form, measured from 1928. The Retail Prices Index includes fuel, clothing and household requirements.

TABLE 8

YEAR	RETAIL PRICES INDEX
1928.....	100.0
1929.....	99.6
1930.....	97.5
1931.....	89.7
1932.....	82.8
1933.....	78.9

As will be seen from this Table, retail prices are believed by the Dominion Bureau of Statistics to have fallen by about 21 per cent since 1928. In other words, the purchasing power of the consumer's dollar, spent at retail, was in 1933 about 26½ per cent greater than it had been in 1928. On an average, the very much reduced incomes of the primary producers and producers of capital goods were thus larger by about 26½ per cent, than they would have been if no such fall in retail prices had occurred.

One of the complaints against the Department Stores is that they have created ruinous conditions for their weaker competitors, by forcing down the prices of merchandise sold at retail. There is no question but that (as a result of conditions of world-wide depression) they have assisted, to some extent at any rate, in bringing about this decline in retail prices (though, we should add, their influence to this end is much less powerful, than many members of the public, and some witnesses before this Committee, seem to have supposed).

To deny the claim that the Department Stores have accelerated somewhat the fall of retail prices, would be to fly in the face of known facts. But, far from feeling called upon to make excuses for acting in this manner, we claim without hesitation that, in as much as they have assisted in bringing about this fall in

retail prices, the Department Stores have rendered a great and essential national service—a service, be it added, to which all strong and successful retail merchants—in chains and independent stores alike—have also contributed. From this fall of retail prices literally millions of Canadians have benefitted—chief among them, the very large part of our population which normally derives its livelihood from Agriculture and Construction.

5. Influence of the Department Stores upon Manufacturing Industries.

The claim just advanced—that, in so far as the Department Stores have been instrumental in bringing about a reduction of retail prices, they have rendered an essential national service—has just been made with special reference to the interests of the very large proportion of our people, who depend for their livelihood upon primary production and the production of capital goods. So far as this section of our population is concerned we do not suppose that our claim will be challenged.

But the matter does not end here. That claim may be made, and almost equally strongly, with reference to the manufacturers from whom the Department Stores buy their merchandise, and with reference to the workers employed by these manufacturers.

It has been represented to your Committee, by certain witnesses, that the Department Stores have been acting in a manner detrimental to the real economic interests of manufacturers and their employees; that, taking advantage of their bargaining strength, the Department Stores have forced upon the manufacturers reductions of their selling prices, which have inevitably been followed by corresponding, or even more than corresponding reductions of wages in the factories; and that, as a result, conditions generally have been demoralised.

While we recognise that there have been reductions both in the selling prices of manufacturers, and in the rates of wages paid by them to their employees, we do not admit that the bargaining pressure exerted by the Department Stores has been detrimental to the real economic interests of these manufacturers and workers. Indeed, we propose to show that the reverse has actually been the case; and that, under the circumstances of the present depression, they have suffered less, as a result of the policies pursued by the Department Stores, than they would otherwise have done: even though there have been demoralised conditions in certain industries.

(i) Relatively Small Decline in the Manufacturers' Prices of Goods Sold at Retail.

First, let it be noted that, while the prices of many manufactured goods have fallen quite considerably, there has been no revolutionary price adjustment in the field of the manufacturing industries, at all com-

STATEMENT TO THE COMMITTEE

parable with the tremendous price adjustment which, for example, the farmers of Canada have had to face; and which is far more responsible for their present impoverished condition, than drought or frost or reduction of acreage, or anything else of an external character.

The Table that follows illustrates the changes that have occurred between 1928 and 1933, first in the average of the prices of all farm products in Canada; second, in the average of the prices of all manufactured goods; and thirdly, in the average of the prices at wholesale of all the goods classified by the Dominion Bureau of Statistics as "consumers' goods." The figures, in each of the three cases, are those of the Dominion Bureau of Statistics; percentages of change, as in previous Tables, are reckoned as from 1928.

TABLE 9

Year	Index of the Wholesale Prices of Farm Products	Index of the Wholesale Prices of Manufactured Goods	Index of the Wholesale Prices of Consumers' Goods
1928.....	100.0	100.0	100.0
1929.....	99.9	97.9	99.0
1930.....	82.0	91.9	93.4
1931.....	56.4	78.7	79.7
1932.....	47.9	73.5	74.6
1933.....	50.6	74.0	74.6

There is evidently no question but that, in respect of price reductions, the manufacturers have escaped relatively lightly; and that the decline in the prices of consumers' goods has consistently been somewhat smaller, even, than the decline in the prices of all manufactured goods; though the difference between the two series of figures is not very great.

Much more striking are the results obtained, when the price index of consumers' goods at wholesale is sub-divided (as it has been sub-divided by the Dominion Bureau of Statistics) under the headings, "Average Prices of Foods, Beverages and Tobacco," and "Average Prices of Other Consumers' Goods," respectively. (Other Consumers' Goods, of course, include all those consumers' goods which are neither smoked nor swallowed, and as to which the Dominion Bureau of Statistics is able to collect price records.) The comparison between these two groups is shown in Table 10, herewith.

TABLE 10

Year	Average Prices of Foods, Beverages and Tobacco	Average Prices of Other Consumers' Goods
1928.....	100.0	100.0
1929.....	100.4	98.0
1930.....	93.5	93.3
1931.....	70.7	86.0
1932.....	61.7	83.8
1933.....	64.2	82.0

Here it appears that the fall in the average prices of foods, beverages and tobacco has been almost exactly

twice as rapid as the fall in the average prices of other consumers' goods. (The greater fall in the prices of foods, beverages and tobacco may clearly be seen as a reflection of the 50 per cent fall in the average of the wholesale prices of all farm products, to which reference has been made in Table 9 above.)

On an average, the prices of other consumers' goods appear only to have fallen by 18 per cent. This very limited reduction is surely to be regarded as exceedingly moderate, when it is compared with the tremendous reduction in the prices of agricultural products, to which the farmers have, willy-nilly, been adapting themselves as best they could.

If reliance is to be placed upon the records of the Dominion Bureau of Statistics (and no man in Canada questions either the competence of our official statisticians, or the wideness of their range), this, then, is the so-called "crushing burden of price reductions," which the Department Stores and other mass buyers are said to have imposed upon the manufacturers.

(ii) Necessity for a Decline in Manufacturers' Prices, in Order to Maintain Volume.

We may well ask at this stage, What would have happened if there had not been such reductions of price among consumers' goods, as are indicated in the Table just quoted? The outstanding fact with regard to the depression's incidence in this Dominion (on which we have already dwelt at some length) is a decrease in the purchasing power of the population as a whole, by more than \$2,500,000,000. The greater part of this decrease, as we have already seen, has been due to the crippling effect of the depression upon Agriculture and upon Construction, and has nothing to do with the policies of the Department Stores, or, indeed, of any group of retail merchants.

It is obvious, surely, that a country whose purchasing power, measured in dollars, has been reduced, within a short time, by no less than 45 per cent, could not but have curtailed its purchases of consumers' goods in something like a corresponding proportion, had the prices of consumers' goods remained at the relatively high levels of 1928 and 1929. If the prices of consumers' goods had not been reduced so as to meet the new situation, the public's inability to buy might have brought a number of our manufacturing industries almost literally to a standstill.

Volume has been maintained, as much as possible, in the retail stores and factories alike, by price concessions to the public. Without such price concessions, it could not have been maintained; and the consequences would obviously have been appalling.

So far as these price concessions are concerned, it is scarcely necessary to state that the retail merchant does not possess an independent initiative. He must simply be regarded as an agent, transmitting to manufacturers the buying impulses of the public: interpreting to manufacturers the public's willingness and ability to purchase at a price. What the public

STATEMENT TO THE COMMITTEE

will not buy cannot be sold, either by the Department Stores, or by any other class of merchandising organization. What the public will not buy *should not be made*: for if made, it merely serves to swell inventories; to make heavier the burden of "frozen assets;" and to make more difficult the credit problem of the manufacturer.

As a result of the price concessions which have been made to the public by merchants and manufacturers, acting in unison, the regularity of employment has been surprisingly well maintained in a number of manufacturing industries; including some which have been brought specially to the notice of your Committee, by witnesses who supposed them to have suffered undue hardships during the depression. We have in mind especially the manufacture of boots and shoes, and the manufacture of textiles in its various branches: and we propose to show presently what their experience has actually been.

(iii) Special Cases of the Furniture and Rubber Manufacturing Industries.

We digress for a moment however, to consider two special cases. There are, it is true, two industrial groups, both of them dependent to quite a considerable extent upon the Department Stores as outlets for their products, in which the regularity of employment has *not* been well maintained; the furniture and the rubber manufacturing industries. As will be seen in Table 11 below, both of these groups have fared worse than the average of all manufacturing industries.*

TABLE 11

Year	Index of Employment: All Manufacturing Industries	Index of Employment in the Making of Furniture	Index of Employment in the Making of Rubber Products
1929.....	100.0	100.0	100.0
1930.....	93.1	89.7	84.2
1931.....	81.4	81.1	70.8
1932.....	72.1	62.4	61.1
1933.....	69.1	55.4	57.3

In most respects the furniture and rubber manufacturing industries differ greatly from one another. The former consists of a relatively large number of separate establishments; many of them individually by no means strong. The latter consists of a relatively small number of individual establishments; most of them of great strength. But these industries have one great characteristic in common. Each of them is largely concerned in the production of goods of a durable character. The furnishing of a house, or even of a room, demands considerable outlay; most families find themselves in the market for any considerable quantity of furniture, only at quite rare intervals. Similarly also, the rubber manufacturing industry is largely engaged in the making of automobile tires; and is, therefore, governed, in the

demand for its products, largely by fluctuations in the demand for automobiles: which are likewise goods of a durable character.

As everyone knows, it is the industries producing durable goods which have, on the whole, been the most hard hit by the depression. In this connection we present, in Table 12 below, the summarised results of an employment analysis recently published by The Bank of Nova Scotia. This classifies the country's industrial workers in groups, of which two are classified as "makers of durable goods," and "makers of consumers' goods," respectively.

TABLE 12

Year	Index of Employment among the Makers of Durable Goods	Index of Employment among the Makers of Consumers' Goods
1929.....	100.0	100.0
1930.....	92.0	94.9
1931.....	78.1	83.8
1932.....	62.8	78.7
1933.....	59.4	78.0

While most of the merchandise sold by the Department Stores obviously comes under the heading of consumers' goods, there are some things sold by them, as, for example, furniture and rubber products, the two industries under discussion at the moment, which obviously belong (the former considered as a whole, and the latter, at least in respect of a large part of its output), to the durable goods category. It will be seen by comparison of the figures in Table 12 with those in Table 11, that the durable goods industries generally have fared about as badly as the furniture and rubber manufacturing industries: and thus, that the hardships encountered by the workers in these two depressed industries, while they merit our sincere sympathy, cannot be regarded as surprising, still less as having been unique in this category.

At a time when the purchasing power of the public has been drastically reduced, the demand of the public for the products of all industries making durable goods is postponable, within quite wide limits of time: and a large proportion of the public postpones the satisfaction of its needs for furniture, and for automobiles and automobile accessories, for a long time—perhaps, indeed, for several years together: whereas the demand for most consumers' goods is not thus capable of postponement. It follows that, in a period in which the purchasing power of the Canadian public has abruptly been diminished by more than \$2,500,000,000, the furniture and rubber manufacturing industries could not but be much more heavily depressed, than most other industries producing for the retail market.

We claim nevertheless that, even in respect of these industries, the efforts of the Department Stores to create a wider market for their products, by means of price concessions to the public, have been helpful; that the volume of work in the factories producing

*In this instance, as also in Table 12, it will be noted that we quote percentages of change from 1929, instead of from 1928. The reason for this is obvious: since employment in almost all industries reached its maximum in the year 1929. The figures are again those of the Dominion Bureau of Statistics.

STATEMENT TO THE COMMITTEE

will not buy cannot be sold, either by the Department Stores, or by any other class of merchandising organization. What the public will not buy *should not be made*: for if made, it merely serves to swell inventories; to make heavier the burden of "frozen assets;" and to make more difficult the credit problem of the manufacturer.

As a result of the price concessions which have been made to the public by merchants and manufacturers, acting in unison, the regularity of employment has been surprisingly well maintained in a number of manufacturing industries; including some which have been brought specially to the notice of your Committee, by witnesses who supposed them to have suffered undue hardships during the depression. We have in mind especially the manufacture of boots and shoes, and the manufacture of textiles in its various branches: and we propose to show presently what their experience has actually been.

(iii) Special Cases of the Furniture and Rubber Manufacturing Industries.

We digress for a moment however, to consider two special cases. There are, it is true, two industrial groups, both of them dependent to quite a considerable extent upon the Department Stores as outlets for their products, in which the regularity of employment has *not* been well maintained; the furniture and the rubber manufacturing industries. As will be seen in Table 11 below, both of these groups have fared worse than the average of all manufacturing industries.*

TABLE 11

Year	Index of Employment: All Manufacturing Industries	Index of Employment in the Making of Furniture	Index of Employment in the Making of Rubber Products
1929.....	100.0	100.0	100.0
1930.....	93.1	89.7	84.2
1931.....	81.4	81.1	70.8
1932.....	72.1	62.4	61.1
1933.....	69.1	55.4	57.3

In most respects the furniture and rubber manufacturing industries differ greatly from one another. The former consists of a relatively large number of separate establishments; many of them individually by no means strong. The latter consists of a relatively small number of individual establishments; most of them of great strength. But these industries have one great characteristic in common. Each of them is largely concerned in the production of goods of a durable character. The furnishing of a house, or even of a room, demands considerable outlay; most families find themselves in the market for any considerable quantity of furniture, only at quite rare intervals. Similarly also, the rubber manufacturing industry is largely engaged in the making of automobile tires; and is, therefore, governed, in the

demand for its products, largely by fluctuations in the demand for automobiles: which are likewise goods of a durable character.

As everyone knows, it is the industries producing durable goods which have, on the whole, been the most hard hit by the depression. In this connection we present, in Table 12 below, the summarised results of an employment analysis recently published by The Bank of Nova Scotia. This classifies the country's industrial workers in groups, of which two are classified as "makers of durable goods," and "makers of consumers' goods," respectively.

TABLE 12

Year	Index of Employment among the Makers of Durable Goods	Index of Employment among the Makers of Consumers' Goods
1929.....	100.0	100.0
1930.....	92.0	94.9
1931.....	78.1	83.8
1932.....	62.8	78.7
1933.....	59.4	78.0

While most of the merchandise sold by the Department Stores obviously comes under the heading of consumers' goods, there are some things sold by them, as, for example, furniture and rubber products, the two industries under discussion at the moment, which obviously belong (the former considered as a whole, and the latter, at least in respect of a large part of its output), to the durable goods category. It will be seen by comparison of the figures in Table 12 with those in Table 11, that the durable goods industries generally have fared about as badly as the furniture and rubber manufacturing industries: and thus, that the hardships encountered by the workers in these two depressed industries, while they merit our sincere sympathy, cannot be regarded as surprising, still less as having been unique in this category.

At a time when the purchasing power of the public has been drastically reduced, the demand of the public for the products of all industries making durable goods is postponable, within quite wide limits of time: and a large proportion of the public postpones the satisfaction of its needs for furniture, and for automobiles and automobile accessories, for a long time—perhaps, indeed, for several years together: whereas the demand for most consumers' goods is not thus capable of postponement. It follows that, in a period in which the purchasing power of the Canadian public has abruptly been diminished by more than \$2,500,000,000, the furniture and rubber manufacturing industries could not but be much more heavily depressed, than most other industries producing for the retail market.

We claim nevertheless that, even in respect of these industries, the efforts of the Department Stores to create a wider market for their products, by means of price concessions to the public, have been helpful; that the volume of work in the factories producing

*In this instance, as also in Table 12, it will be noted that we quote percentages of change from 1929, instead of from 1926. The reason for this is obvious: since employment in almost all industries reached its maximum in the year 1929. The figures are again those of the Dominion Bureau of Statistics.

STATEMENT TO THE COMMITTEE

furniture and rubber goods, small as it has been, was nevertheless greater, as a result of special sales by the Department Stores at low prices, than it would otherwise have been. In the case of the rubber manufacturing industry, we do not recall any special representations to your Committee, that might be held to controvert this claim. In the case of the furniture manufacturing industry, however, the subject has already been ventilated fully by witnesses, some of whom have taken an attitude by no means favourable to the Department Stores. We do not propose, at this stage, to review their evidence; or to discuss at length the causes of the distress which has been experienced by some, at any rate, of the producers of furniture in Canada. We have, however, made a careful investigation of the furniture industry, prior to the preparation of this Statement: and are prepared to show, first that the serious condition of the furniture industry was not due to the policies pursued by the Department Stores, and secondly that the Department Stores by means of these policies gave real assistance to the furniture producers. If the Committee wishes to pursue the subject, we are prepared to deal with it in detail, and to submit a special memorandum upon it.

(iv) Other Manufacturing Industries Producing for the Retail Market.

From the furniture and rubber manufacturing industries we turn to four others, which produce consumers' goods for the retail market: the boot and shoe industry; the thread, yarn and cloth industry; the hosiery and knit goods industry; and the garments and personal furnishings industry. We propose to consider briefly the fluctuations of employment among the workers in each of these four groups.*

In Table 13, below, we quote the statistics of employment in these industries, published by the Dominion Bureau of Statistics; percentage changes, as in the previous Tables of Employment, are reckoned from 1929.

TABLE 13

Year	Index of Employment: Leather and Products	Index of Employment: Thread, Yarn and Cloth	Index of Employment: Hosiery and Knit Goods	Index of Employment: Garments and Personal Furnishings
1929.....	100.0	100.0	100.0	100.0
1930.....	95.7	92.1	95.2	98.9
1931.....	94.5	93.5	93.0	91.8
1932.....	95.0	99.0	96.2	84.8
1933.....	97.2	99.7	96.2	82.1

These changes from 1929 to 1933 may properly be compared with the general experience of all industries producing consumers' goods, as shown in Table 12

*Previous to 1933 the Dominion Bureau of Statistics did not publish a separate index of employment in the boot and shoe manufacturing industry. Since, however, in 1933 about 70 per cent of all the workers employed in the manufacture of "Leather and Products" were actually employed in the making of boots and shoes, we have felt that the Bureau's index of employment under the heading "Leather and Products" may be taken as indicating, with sufficient accuracy for present purposes, the fluctuations of employment in the boot and shoe factories of this country.

above. It will be remembered that, in the Dominion as a whole, the number of workers actually employed in the making of consumers' goods shrank during these five years by 22 per cent; the indices for 1929 and 1933 being 100 and 78 respectively.

With this figure in mind we cannot but realise that the four industries at present under consideration have fared relatively very well. Taking the average for the whole of the year 1933, and comparing it with the average for the whole of the year 1929, we find that the volume of employment in the making of leather and its products was reduced by less than 3 per cent; the volume of employment in the making of thread, yarn and cloth was reduced by less than $\frac{1}{2}$ of 1 per cent; the volume of employment in the making of hosiery and knit goods was reduced by less than 4 per cent; and the volume of employment in garments and personal furnishings (the most outstanding of the four cases) was reduced by slightly less than 18 per cent.

We believe that it would be difficult to find three industries in which the workers have experienced so little unemployment, as the manufacture of leather and its products, of thread, yarn and cloth, and of hosiery and knit goods. Even in the making of garments and personal furnishings, the shrinkage of 18 per cent can scarcely be regarded as occasion for surprise, when it is remembered that this occurred as the result of a depression without precedent, in which the working force of the whole country was reduced (comparing the 1929 average with that for 1933) by about 557,000 workers.*

Incidentally to this figure, it is to be noted that (according to the same estimate) the total shrinkage of employment in all industries producing consumers' goods, comparing 1929 with 1933, appears only to have amounted to 65,000 workers. When this number is compared with the shrinkage of 557,000, for all industries taken together (except Agriculture and the Public Service) the proportion is certainly not impressive: it is less than 12 per cent of the aggregate shrinkage of employment in the Dominion as a whole.

(v) Stabilising Influence of Price Reductions.

The relatively slight incidence of unemployment, among the workers producing consumers' goods, may be regarded, surely, from one standpoint, as a measure of the success with which the retail merchandising establishments of the country (the Department Stores included) have adapted their policies to the straitened purses and reduced purchasing capacities of the people of Canada.

It is not in this group of industries that we shall find the severest problems, or the sorest spots in the depression. Indeed, in so far as we are led to concentrate our attention upon the special problems of

*See The Bank of Nova Scotia Monthly Review for April 1934, to which reference has already been made above; the actual annual average of the employed salaried and wage-earning working force of the whole Dominion, according to this estimate, was: in 1929, 2,090,000 persons; and in 1933, 1,533,000.

STATEMENT TO THE COMMITTEE

industries engaged in the production of consumers' goods, we shall almost inevitably be led to neglect those of Agriculture and Construction, where the core of our difficulties is to be found.

That the prices of consumers' goods have been reduced—that both the retailers and the manufacturers have been compelled to accept less money for them—goes without saying. We have seen that, in comparison with other prices—those of farm products in particular—the reductions of price have, in general, been relatively slight. It follows that, concurrent with or following upon these reductions in the prices of consumers' goods, the wages of the workers handling these goods, both in retail stores and factories, have also been reduced: wages can only be paid out of the revenue from sales. This unpleasant necessity—the reduction of the workers' wages—could have been avoided, only by some miracle which would have forestalled and prevented the \$2,500,000,000 reduction in the spending power of the Canadian public, to which we have already referred more than once, and of which the wages of those handling consumers' goods only form a small fraction. No miracle-worker was at hand, who could perform this feat. But, in proportion as the stresses of the depression were spread (in the form of lower wages and prices), so was the volume of employment maintained—and in a surprising degree—for the workers making and handling consumers' goods in the factories and stores.

This record, far from being one of the blots on the country's economic history, must surely be considered among the less dark spots, in a depression which has already caused untold hardship, and whose consequences are likely to be with us for many years to come.

Conditions of employment, and the conditions in which piece-work rates are set, have certainly been demoralised in some sections of these four industries. So much has indubitably been placed in evidence by witnesses before your Committee; the country has taken note of it. But it must be added that, in (for example) the garment manufacturing industry, there is a notoriously chaotic organization of the labour supply; there is a notorious shortage of experienced workers; and there are, at all times, notoriously bad conditions of competition between financially weak employers on the margin of production, (who have only been enabled to get into business, because their initial capital requirements were very small).

To hold any group of retail merchants responsible for such conditions in a manufacturing industry, would be to take a view that can scarcely be sustained. The fact stands, that the price reductions transmitted from the public, through the retail merchant, to the manufacturers of consumers' goods have, on the whole, been very substantially less than most of the price reductions, which most other Canadians, not producing for sale to the Department Stores, have been compelled to face. Moreover, the most drastic

reduction of piece-rates, of which your Committee has been asked to take note, has been no more drastic than the country-wide and universal reduction in the remuneration of our wheat farmers—the price received by them per bushel harvested. In as much as the wheat farmer is an indispensable customer of the Canadian manufacturer, the connection between piece-rates and farm prices, if indirect, is nevertheless one to which we cannot shut our eyes.

6. Position of the Manufacturers in Relation to the Department Stores.

If one were to judge merely by the sympathies expressed for the Canadian manufacturers, by witnesses who have appeared before your Committee on behalf of the retail merchants, one might well suppose that, more often than not, these manufacturers have been ground down by the buyers for the Department Stores; and that they have only been prevented from voicing their grievances before this Committee, by fear of the consequences that might be visited upon them, by the buyers in question.

Actually, we venture to believe that the Canadian manufacturer has always found a very welcome outlet for his merchandise in the Department Store; and this for a number of reasons, not the least of which is the nature of his relationship with the buyer.

But since most manufacturers, of the wide range of merchandise that falls under the general term "consumers' goods," are in contact continuously, not only with the so-called "mass buyers," but also with small retail merchants from Halifax to Vancouver—and since they have an obvious and very proper interest in remaining on friendly terms with both classes of retailers—there are excellent reasons why, generally speaking, these manufacturers have refrained from open expressions of opinion, on the merits of this question.

That isolated instances may perhaps be found, in which the treatment of a manufacturer, by one of the buyers for a Department Store, has not been altogether satisfactory, we do not deny. We have already made the point that, in almost any very large organization, there are likely to be cases, in which an agent may be shown to have acted, in a manner contrary to the policies and intentions of his principals.

So far as the Department Stores are concerned, it is obvious, however, that their interests are best served by maintaining relationships with their sources of supply, such that goods of exactly the right kind can be secured continuously, with the minimum of friction and delay. The best of results can be realised, only when there is really cordial co-operation between merchant and manufacturer.

Apart, moreover, from the fact that it is in the interest of each party, that he maintain the friendliest of connections with the other party, there are certain features in Department Store operation which naturally commend themselves to manufacturers.

STATEMENT TO THE COMMITTEE

In the first place, the Department Store places an order which is "as good as cash." There is no question whatever in the mind of the supply house but that, on the date stipulated in the terms of the contract, payment will be made, and made in full, by the Department Store. So complete is this assurance that the manufacturer can, as a rule, take to his bank a contract with a Department Store, and secure a loan against it.

As compared with an order from a Department Store, an order from a small retail merchant has attractions which are obviously less, quite apart from its smaller dollar value.

(a) There is a risk of failure on the part of the purchaser. In a successful campaign of sales to small retail merchants, aggregating a million dollars or more, a small percentage of actual failures is so direct a contingency, that it almost merits the description of an actuarial risk.

(b) Moreover, quite apart from the risk of failures, there is a strong probability that, in the case of some such sales to small retailers, collections will be delayed. The small retailer, normally, has quite a slow rate of turnover—with the result that a few weeks of poor sales may leave him in a weak cash position—and the manufacturer knows that he may be kept waiting for his money.

Both the risk of failure, and the risk of delayed collections, must be regarded as costs incurred by manufacturers who sell in large volume to the small retail trade. These costs are minimized, presumably, by the maintenance, in each of their Head Offices, of a credit department; but the credit department is itself an item of expense.

In the second place, there is normally no selling cost involved for the manufacturer, in his dealings with a Department Store. It is true that, when in the city where the Store is situated, he may from time to time call upon the buyer; his need to keep himself informed, as to the varieties of merchandise being offered by his competitors, is in itself a sufficient reason why he should do this: for nowhere else can he see such large displays of goods. It is also true that, if the manufacturer himself is "pressed for cash" (and therefore unusually desirous of securing an order), his obvious procedure is to make a direct approach to the buyer. But this is not the rule. The buyer of the Department Store spends a large part of his time, in travelling from plant to plant. In many cases, he calls upon the manufacturer, with a view to securing the goods that he needs. He discusses the practical questions involved, in the plant where these goods will be made. Thus, in normal circumstances, the buyer's order, on behalf of the Department Store, is apt to be given in the manufacturer's own office.

This is naturally not the case with orders from small retail merchants. In obtaining these orders, the manufacturer finds himself confronted with a selling cost, which may be negligible in some instances, but

which is often quite a large item; for our population is so widely scattered, from Atlantic to Pacific, that it constitutes as expensive a "sales proposition," as one could well imagine.

Nor is this cost avoided, by resort to the wholesale merchant as an intermediary. With reference to the now quite limited field of trade, in which the function of selling to the small retail merchant is still performed by the wholesaler, his gross profit, of course, takes the place of the manufacturer's selling cost. It is, in any case, an addition to the manufacturer's factory price; and both are necessarily charged to the small retail merchant.

The question whether sales to the small retailer shall be made by the wholesaler, or by the manufacturer himself, largely depends upon the relative economies of these two methods of "covering the trade." But whichever method is employed—and this is the significant point—a "selling cost" is involved in the distribution of goods to small retailers, which is not involved in the dealings of the manufacturer with a Department Store.

In the third place, the Department Store not infrequently relieves the manufacturer of the responsibility for choice of style and design. The buyer for the Department Store, before going to the manufacturer, has formed a shrewd notion as to what merchandise is likely to sell most readily, during the season ahead of him. Instead of seeking ideas from the maker of the goods, he furnishes his own ideas; instead of asking for designs from which to choose, in many cases he brings with him a series of designs, made in his own office, for execution by the manufacturer.

By contrast, the small retail merchant is naturally not able to give much assistance to the manufacturer, in the choice of styles, and the creation of designs. His market is not broad enough: he has no complete cross-section of the public, on which to form his judgment: nor is that judgment fortified, as a rule, by the results of travel abroad. Any manufacturer, whose main outlet is the small retail trade, is obliged to take an initiative, in choosing styles and designs, which involves yet another element of business risk. The chance that he may "miss the market," through mistaken choices of style and design, is another cost to be carried by his sales; and the maintenance of his designing office is yet another addition to his manufacturing expense.

In the fourth place (should the manufacturer be seriously "pressed for cash"—and anxious quickly to place himself in a liquid position, by disposing of a large stock), the Department Store does provide the means by which a large stock—provided that it is not out-moded already—can quickly be disposed of.

Of course, it is true that, in order to secure quick disposal of a swollen inventory, the manufacturer may find it necessary to make substantial price concessions to the buyer; for the Department Store can only render this service to him, in times when mer-

STATEMENT TO THE COMMITTEE

chandise is moving slowly, by creating a demand based upon bargain prices, which would not otherwise exist.

On a falling market (in a time of general depression particularly), with little warning or none, a manufacturer may find himself burdened with an inventory, whose cost bears no relation to the market value that can be placed upon it, when it comes to be marketed. His actual solvency may be quite beyond question; and yet, until he can be freed from this burden of "frozen" assets, he may be crippled. In particular, so long as this condition exists, he may be quite unable to continue paying wages to his working force: for, with his capital thus involved, he may not have the means to continue production. The fact that, while completely solvent, he gladly takes the chance afforded him by the Department Store, to get rid of an excessive inventory, serves as proof enough that, in providing him with an adequate sales outlet in an emergency, the Department Store has well served his interest, even though he take a loss on the transaction. An inventory that is "written down" and promptly sold, is obviously much more serviceable to him, than an inventory that is "written down," and warehoused for an indefinite period.

In the course of their researches, the staff of investigators employed by your Committee have come upon a number of large sales of this kind: sales some of which have been staged by one or other of the stores maintained by this Company, at the suggestion of some embarrassed manufacturer. We are confident that, in most of these cases, it will have been found that the manufacturers, whose stocks were liquidated at such sales, considered themselves to have been well served in this manner.

Is it possible that, if there were no Department Stores, manufacturers could quickly dispose of surplus stocks through the myriad of small retailers, to whom they would then look for this purpose? It is only necessary to state the question, in order to see how difficult—even hopeless—would be the position of many manufacturers under such circumstances. Anyone who has been called upon to undertake the disposal of a large surplus stock through small retail channels, knows how slow this process must almost invariably be; how large an expense it involves; and how little practical assistance it gives to the hard-pressed seller.

For any manufacturer, who from time to time finds himself burdened with a swollen inventory, the Department Store is almost indispensable, simply for clearing purposes; and while this statement holds even in a period of prosperity, it obviously has still greater force when business is depressed. From the standpoint of such a manufacturer, the Department Store serves the purpose of a safety-valve. Can we doubt that if, in the years from 1929 onwards, the Department Stores had *not* been available at all times for clearances on a large scale, there would have been

yet more bankruptcies among manufacturers, and yet more unemployment among manufacturing operatives, than was actually the case?

These four considerations alone may, perhaps, be regarded as establishing our claim, advanced at the beginning of this Chapter, that, from the standpoint of the individual Canadian manufacturer, the Department Store has always been a very welcome outlet for his products. But this is not all.

In the fifth place, it is to the Department Stores, very largely, that the manufacturer looks for the large orders, that make possible an economical organization of production in his factory, the spreading of work over seasons that would otherwise be slack, and the retention of his working force in continuous employment. This is a factor which not only has much to do with the continued success of the manufacturer, considered as an individual, but which is of great import also, to the Dominion as a whole, and should be considered from the standpoint of the public interest.

When we turn from the problems of individual manufacturers, and consider the Department Store from the standpoint of Canadian industry generally, the part that it has played, in building up this country, becomes even more obvious.

In an earlier section of this Statement, a contrast was drawn between the two main stages of the Industrial Revolution, which has transformed all the circumstances of our lives during the past two centuries. It was noted that, broadly speaking, the nineteenth century saw the coming of mass production, and the twentieth century the coming of mass distribution—its logical corollary.

But while the notion of mass production has been familiar to the world ever since James Watt invented the steam engine, a quite new connotation has been given to the term by recent developments in the United States.

Britain was the first home of massive production, on the limited scale possible in past generations. In the United States, however, mass production has recently been developed on a scale so tremendous and unprecedented, that what would properly have been considered mass production, in Britain or anywhere else, till a few years ago, now ranks, by comparison with United States achievements, as quite small scale production.

Over-shadowed by the great United States industries, the manufacturing industries of Canada have always been handicapped by the narrowness of the Canadian market, which does not naturally lend itself to mass production; and in this market, as everyone knows, they must sell by far the greater part of their products. One of our main difficulties, for many years past, has been that of creating in this Dominion (with its relatively small population), conditions resembling those enjoyed by competing manufacturers south of the border, with their market of a hundred and twenty millions.

STATEMENT TO THE COMMITTEE

A population of only ten millions, thinly distributed across a narrow ribbon of territory from Halifax to Vancouver, does not provide an ideal home market for this purpose. How difficult would be the task of the Canadian manufacturer, if his sales to the public were made entirely through the medium of thousands of small retailers across this territory, we can scarcely realise. Even under present conditions, the records of the Tariff Board are full of instances, in which the Canadian manufacturer has found that his costs were kept unnaturally high, by the fact that his machines were engaged, almost all the time, on "short runs."

Fortunately, despite the relatively small population of Canada, this country possesses a few great merchandising organizations, whose demands are such as to create for Canadian manufacturers, in some lines at any rate, conditions of mass production resembling those in the United States: to provide Canadian manufacturers with the "long runs" that they need; and—perhaps the most important consideration of all—to keep their machines occupied and their working forces together, during what would otherwise prove to be dead seasons.

If we were not able to duplicate, at least in a limited field, these conditions of mass production, the handicaps of the manufacturers in Canada would be by so much the greater; and the justification of our attempts to foster domestic manufactures would be by so much the more difficult. This the Department Stores may surely, with justice, plead on their own behalf.

7. Alleged Price Concessions to the Mass Buyers.

Much has been said by witnesses before your Committee, in support of the belief that the Department Stores frequently purchase goods from manufacturers, at prices lower than those which are paid by the small retail merchant; and this practice has been represented as indefensible.

In the nature of the case, the Department Stores themselves are unaware of the extent to which they may be in a position of advantage, as compared with the small retail merchant, in purchasing from manufacturers. The Department Store buyer, when discussing terms with a manufacturer, may know the price which he would have to pay for the goods under discussion, if he should purchase them elsewhere. In the case of any goods which can be made in factories owned by his own Company, it is also possible that he may know the price that he would have to pay to get such goods from one of these factories. He may, moreover, have a shrewd general idea (from his knowledge of the retail prices at which similar goods are sold by his competitors), of the prices *likely to have been paid* for such goods by those competitors. He does not, however, know for certain what is being paid for them, by anyone other than himself.

For this reason, it is impossible to discuss in precise terms the price concessions which are said to have been made to the Department Stores, by those from whom they purchase. Your Committee's investigators doubtless have at least some information on this point. Witnesses, however, whether for the small retail merchants or for the large buyers, are not in this fortunate position.

We propose only to discuss this subject very briefly. Properly considered, we believe that price concessions to the Department Stores should be grouped in two categories: those which may naturally be made in ordinary circumstances; and those for which there are special reasons, in periods of stagnant trade.

(i) In Conditions of Normal Trade Activity.

What has been said in the last preceding Chapter raises the strong presumption that, even under normal circumstances, it is well worth the while of many manufacturers to sell to the Department Stores, at prices somewhat lower than those that they would demand from other purchasers; and this for the simple reason that, in producing for the Department Stores, they can escape certain costs which would inevitably be present, if they were producing, instead, for the small retail trade.

If freedom from the twin risks of bad debts and delayed collections—total or even partial exemption from the serious item of selling cost—and an opportunity to make up goods in accordance with designs provided by the purchaser—orders which give the factory "long runs," or which keep men at work in slack seasons—if these involve economies of manufacture (and they certainly do), surely they should logically be reflected in price concessions, to those who make such economies possible.

It is only natural that the small retail merchant, chiefly preoccupied with his own problems, should resent the fact that the Department Store presents these attractions to the manufacturer. Perhaps it is only human nature that his resentment should occasionally find expression in an over-statement; as in the generalisation of one witness before your Committee, that *if* the Department Stores are permitted from henceforth to buy more cheaply than their small competitors, *then* the doom of the small retail merchant is at hand.

At the close of this Statement, we hope to show good reason for believing that there is an undoubted future for the small retail merchant, provided that he satisfies three main conditions—if he has mastered the modern technique of merchandising, *if* he possesses a sufficient capital, and *if* he has selected a location, and a line of business, on the basis of real knowledge—but we do not venture, at this point in the discussion, to deal with so large a question.

Meanwhile, as against the claim that the Department Stores should not be permitted to take advantage of price concessions, there is this obvious con-

sideration: that if they were compelled always to pay the same prices for merchandise as are paid by competing retailers, however small, they would almost inevitably drift into the habit, characteristic among small retail merchants, of ordering from hand to mouth. "Short runs," a present handicap to the manufacturer, would become still more general. Costs of production would increase. Thus, if the granting of price concessions on quantity purchases were forbidden, this would undermine, almost inevitably, such facilities for mass production as the Canadian manufacturers do possess; expose them to fiercer competition from manufacturers abroad; and so neutralize the tariff protection which is, under present conditions, considered adequate for the safe-guarding of domestic industry. This is obviously not a contingency to be welcomed.

We feel confident that, having regard to broad considerations of public policy, your Committee will recognise as being entirely proper, existing relationships between the Department Store and the Canadian manufacturer; that (whatever reservations it may wish to make, with regard to special cases, in which a strong bargaining position is capable of abuse), it will, in general, approve these relationships as a normal feature of our economic life. We now proceed briefly to discuss the problem of price concessions, as it arises under abnormal circumstances.

(ii) In Times of Depression.

Whatever may be said in favour of price concessions in return for quantity purchasing, during a period of normal economic activity, may surely be repeated with far greater force, when the problem arises in a period of stagnant trade.

It is conceivable that, if we were ever successfully to stabilize the purchasing power of money, the manufacturer might thus find himself safe-guarded, to some extent at least, from the recurring danger of a "frozen" inventory. Presumably there are no business cycles, and no depressions in Utopia. But so long as the purchasing power of money does fluctuate (and with it the prices of merchandise of all kinds), the risk will always be present, in the case of any manufacturer, that he may find his warehouse filled with high cost merchandise, for which there is no present demand.

If he is to wait for a revival of demand, he may be compelled to keep his establishment idle for a long time. He is likely to have obtained a loan from his banker, while the merchandise was in process which is now stored in his warehouse; and until this merchandise can be liquidated, the payment of the loan will indefinitely be postponed. The paralysis of his own operations is an almost inevitable consequence.

His task is to create a demand for his goods, where none exists. The public upon which he has depended in normal times, for the passing of his goods into consumption, is now not buying. He must therefore

stimulate the desires of a new public, by bringing what he has to sell within the range of their purses.

When he comes face to face with this problem, he will often find that his one hope of placing himself in a liquid position, and of keeping his working force in employment, is that offered by the Department Store. With its elaborate machinery for bringing unusually cheap purchases to the notice of the public, and its ability (which is not as a rule shared by the small retail merchant), to take business risks upon its own shoulders, it is frequently capable of creating the new demand. But it can do this, it can offer bargains to the public, only by securing a bargain from the producer whose interest it is serving.

Thus, in a time of depression, the problem is not primarily to be regarded as one of keeping down unit costs of production. It is one of keeping men at work. We have no hesitation in claiming that, if the Department Stores had not, during the past four years, provided an outlet for many hard-pressed manufacturers, there would have been even more unemployment among manufacturing operatives, than actually there has been. If, in the future, the manufacturer may not again use the Department Stores as an outlet (and make the price concessions requisite for this purpose), recurring slumps of business will cause quite unnecessary hardship for the workers. Enforced reductions of wages are to be deplored, even when we recognise them as unavoidable. To most of us, nevertheless, enforced idleness is an even worse evil.

8. The Question of "Loss Leaders".

This is not an easy subject to discuss—for the simple reason that, to the question: What is a "loss leader?"—there is no certain answer.

In its very simplest form, we may perhaps define the loss leader as merchandise which is sold to the public for less than it originally cost the retail merchant. This cannot be treated, however, as the complete definition, for the term does not include clearances, and in the term there is also a connotation of purpose. It is not only to be supposed that the merchandise is sold at a loss; but also that it is sold at a loss in order to bring customers into the Store during quiet hours, or at other times when business is dull. They would then remain (it may be supposed) to purchase goods with a regular mark-up.

But if this double definition is applied as a criterion of the loss leader, then the Department Stores, at any rate, may plead that the loss leader is an element of very trifling importance in their operation.

(i) Motives Responsible for the Sale of "Loss Leaders".

The small proportion of the Department Stores' aggregate sales, which is constituted by loss leaders, is evidence in itself that their practice of selling certain goods from time to time at less than laid-down cost,

STATEMENT TO THE COMMITTEE

cannot have produced the demoralizing results market-wise, of which some of the witnesses before your Committee have made a good deal. It is, after all, to be remembered that the demand for any merchandise whatever is more or less elastic; in other words, that sales at unusually low prices are reasonably certain to stimulate the consumption of the goods thus sold, and to provide the producers of such goods with more business, than would otherwise have come to them. But we believe that the problem of the "loss leader" may most usefully be discussed, with reference to the motives prompting the sale of it on different occasions. These are principally three: to meet the competition of other sellers; to distribute sales more evenly during store hours; and to bring increased custom to the Store. They will briefly be discussed in this order.

(a) TO MEET THE COMPETITION OF OTHER SELLERS.

So long as the practice of advertising loss leaders exists in any class of retail trade, it is obvious that other retail merchants who have to meet such competition will find it very difficult to refrain altogether from this practice, irrespective of their own views upon its merit. The Department Stores are thus not entirely their own masters, in deciding whether to maintain loss leaders, or not. So long as any firms maintain loss leaders, the Department Stores are likely to find it at least advisable to follow suit.

(b) TO DISTRIBUTE SALES MORE EVENLY DURING STORE HOURS.

As everyone knows, the public shows a marked and increasing tendency to concentrate its shopping in the middle of the day. If no steps were taken to distribute its demands more widely, by putting on special attractions during limited hours particularly at the beginning of the day, there is no doubt that a proportion of the floor space of the Store, and a proportion of the sales force also, would be left in comparative idleness during part of the working day. Since the rent of floor space can only be provided, and (of still more importance) the wages of the workers in the Store can only be paid out of sales, it is obvious that the results would affect especially the sales force, as a larger number would have to be kept on a part-time basis. The loss leader also serves the purpose of enabling the evening up of business activity by having the people shop on those days when it is most desirable, from the standpoint of the Store, that shopping should be done.

(c) TO BRING INCREASED CUSTOM TO THE STORE.

In this instance the motive is obvious, which lies behind the sale of a loss leader. The Store is attempting to extend its business; and is confronted with two broad alternatives—either to spend somewhat more on advertising; or to offer a sale which the public will regard as a bargain. Whatever procedure is adopted, it is likely, within limits at any rate, to bring about the desired result.

(ii) Relative Unimportance of the "Loss Leaders"

It has been pointed out that the proportion of the total sales of a Department Store, which may be described as loss leaders, is trifling. Nevertheless, if a quite small number of articles were advertised as loss leaders, and these were sold in very large quantities at any one time, it is easy to see that the result might be demoralising, over a wide field of retail trade. We therefore believe it is well to point out that, while loss leaders have frequently been used by some stores for one or other of the reasons enumerated above, an individual loss leader sale is, as a rule, so small that its effect, even upon the local market for a particular kind of merchandise, must be recognized as being of no consequence.

While we do not possess a complete record of all the transactions, of all the Stores maintained by this Company, which might fairly be described as loss leader sales, we have made a detailed analysis of all the sales of this kind, over a twelve months' period, in our three large Department Stores, in Toronto. More than 800 loss leaders have been listed, with full particulars as to selling price and delivered cost in each case. The average value of each such sale, if all of this large number be taken together, is \$184.33. Whatever purpose may or may not have been served by these sales, it will scarcely be maintained that the selling, in a city with a population exceeding half-a-million, of less than \$200 worth of merchandise at bargain rates, on a particular day, can have had a very material effect on anyone else engaged in the sale of such merchandise, even if the process is repeated at fairly frequent intervals. The truth is that (so far, at least, as the Department Stores are concerned), the loss leader is far less important, whether for good or evil, than has been supposed by popular opinion.

9. Treatment of their Employees by the Department Stores.

While the Committee on Price Spreads and Mass Buying has, very naturally, given primary consideration to the relationship between the producer, the merchant and the public, there is nevertheless another party to this relationship, whose interests cannot be left out of account. This is the worker belonging to the store staff of the merchant.

The worker's interests are the most easily jeopardized of all, in any brusque attempt to narrow price spreads. By far the greatest saving that was open to this Company, when the depression began, was that which it would have obtained by means of all-round wage reductions, if it *had* acted brusquely.

(It is, of course, true that, as the depression developed, the money wages of the workers in these Stores have had to be reduced; for, as we have already remarked in another connection, wages can only be paid out of the proceeds of sales. There is scarcely to

STATEMENT TO THE COMMITTEE

be found an employer in Canada—from the Federal Government downwards—who has not been compelled to reduce wage rates at some time during the past five years: and in some occupations there have been repeated reductions. We propose to show, however, that this Company has met the great dangers, attendant upon an alarming shrinkage of the public's spending power, without unduly reducing the wages of their employees. As will presently be seen, the worker who has remained in their employment on a full-time basis—and there are many such—is earning at a higher rate to-day—when his wage is measured in actual purchasing power—than he did in 1929. Moreover, his earnings, in each year since the depression began, have been at a higher rate—measured in purchasing power—than they were in the last year of prosperity.)

But while the wages of the store staffs are a paramount consideration, they by no means constitute the whole of the contributions made by this Company to the welfare of its employees. Over a period of time, the Company has developed a number of additional activities for the benefit of the staff in its stores and mail order departments; and, when taken together, these represent (from the standpoint of the staffs) quite a substantial addition to the wages actually paid. Some of them are enumerated in the next following section.

(i) Expenditure on the Welfare of Employees.

Under this head we may notice, first of all, the direct expenditures which may properly be classified under the general term Welfare: such as, for example, part-pay given during absence through illness; medical attention, the cost of which is defrayed by the Company; the payment of retiring allowances on a non-contributory basis; and grants to help maintain the recreational activities of employees in their spare time.

We have not thought it necessary to present an itemized statement of outlays made by the Company, which may be classified under the term Welfare; though we can do this, if it is considered necessary. We may state in brief, however, that in 1933 (though last year, being one of diminished trade and restricted opportunities for employment, involved the Company in less than average outlays of this kind), aggregate Welfare expenditures were no less than \$540,000; an indirect addition of about 2½% to the wages of the staffs in its stores and mail order departments.

Secondly, the Company gives its employees a discount on purchases; the regulations as to which have already been ascertained by your Committee's investigators. Unfortunately, no continuous record has been kept of the values involved in these discounts.

Thirdly, the Company has developed a special form of security, which is available for the safe investment of employees' savings.

Debentures are issued to employees of one year's service or more. These bear interest at the rate of 5 per cent per annum, payable half yearly. In addition, the Company declares an interest bonus from year to year. For the past few years, this interest bonus has been at the rate of 1½ per cent, on the debentures outstanding.

Fourthly, the Company allows vacations with pay to all employees, in the stores and mail order departments. Workers who have been in the Company's service for one year may claim one week's holiday with pay; and workers who have been with the Company for two years or more, may claim two week's holiday with pay.

In addition to these provisions, the Company has a system of loans to employees, which takes care of special needs; and has made various other provisions, of minor importance, for their benefit.

The T. Eaton Company, moreover, pays on behalf of its employees, of six months' service or over, 10 per cent of the life insurance premiums due to the T. Eaton Life Insurance Company.

While it is impossible to measure accurately the benefits derived from these arrangements, by the staff, we fancy that, on a conservative estimate, they may be regarded as supplementing the wages paid to them by not less than 7 per cent; and perhaps even more.

(ii) Earnings of Employees During the Depression.

From these special expenditures, we revert to the wages paid by the Company's Department Stores.

For this purpose we have thought it well to calculate an average of the wages paid per hour, in all of the retail stores maintained by this Company.

Hourly rates of wages were actually very slightly higher in 1930 than in 1929, despite the coming of the depression. In 1931, the average hourly wage earned was not only lower than that earned in 1930, but also very slightly lower than that earned in 1929. But these small differences are not significant. For the sake of simplicity, we may well regard the average hourly wage as having been practically constant during these three years.

The depression, meanwhile, had become intense. The Company had no choice, but to make economies all along the line. As a result, the year 1932 was the first, which witnessed a reduction in average hourly wages of any substantial amount. The year 1933 witnessed a further reduction, such that average hourly wages in 1933 were about as far below those of the previous year, as the 1932 figure had been below that of 1931.*

But, in the meanwhile, the retail cost of living had been falling. In order to measure the decline, we turn again to the records of the Dominion Bureau of Statistics. In Table 14, below, we compare the

*It will be within the knowledge of the Committee that the downward movement of wages was reversed some time ago. We may now hope that, if business continues to improve, hourly rates of wages will gradually rise, in the direction of the 1930 levels.

STATEMENT TO THE COMMITTEE

in average hourly wages of store staffs with
 nge in the retail cost of living as measured by
 eau.*

TABLE 14

Year	A Hourly Wages of Store Staffs in Percentages of the 1929 Average	B Retail Cost of Living Index in Percentages of the 1929 Average	C Purchasing Power of Hourly Wages, Expressed as Percentage of the 1929 Figure.**
.....	100.0	100.0	100.0
.....	100.2	99.3	100.9
.....	99.5	89.7	110.9
.....	91.4	81.5	112.1
.....	83.4	78.3	106.5

e are the figures validating the statement,
 t the beginning of this Chapter, that those
 rs of the store staffs, who have continuously
 nployed at full-time, are actually receiving
 with a greater retail purchasing power to-day,
 ose earned in 1929. It will be noticed that,

I be noted that the Retail Cost of Living Index, as presented here,
 detail agree with the figures presented in Table 8, on an earlier page.
 so based upon the records of the Dominion Bureau of Statistics, is
 ces Index, including only fuel, clothing and household requirements.
 Cost of Living Index, here shown in Table 14, covers all those items
 ng costs, which the Dominion Bureau of Statistics has been able to
 n other words, the Retail Cost of Living Index includes the Retail
 x; but it includes other items also, such as rent.
 y figure in Column A has been expressed as a percentage of the
 ng figure in Column B.

in each year following 1929, the relation between
 average hourly wage rates and the retail cost of living
 has been such, as to give the money wage a greater
 purchasing power at retail, than it possessed in the
 last year of prosperity.

We would like the Committee to believe that, in
 reducing rates of money wages on more than one
 occasion (as it has been compelled to do) the
 Company has been actuated sincerely by the desire
 to preserve the standard of living of the store staffs,
 so far as this was humanly possible. No wage re-
 duction has been made, except with reference to
 changes in the retail cost of living; and, as a result,
 the standard of living of employees in the Stores has
 been carefully safeguarded.

This could not have been done without increasing
 the burden of wages, as a charge upon merchandising
 operations.

Inevitably, the growing burden of wage charges
 was carried, by trenching upon interest and profits.
 The residual income available in 1931, for interest and
 profits together, was reduced by more than four-fifths
 below the 1929 figure: that of 1932, by more than half.
 Since then, it is true, there has been a measure of recov-
 ery: but the sum available for interest and profits was
 still, in 1933, far smaller than before the depression
 began.

PART IV. CONCLUSION

1. The Position Summarised

AT THIS stage, it may be well to draw together the scattered threads of argument in the preceding pages: and this we propose to do, making a very bald summary, for the convenience of all concerned.

The case here presented is, in essence, comparatively simple.

It has already been seen that, during the past five years, the price-spread of this Company, in all its retail stores taken together, has averaged less than one third of the delivered cost of merchandise to them. This price-spread corresponds with a Gross Margin of less than twenty-four per cent: and is demonstrably low, when compared with any figures as to merchandising costs, which are at present available on this continent.

It has also been seen that the costs of operating the mail order establishments, which this Company maintains, are slightly higher than those of operating its retail stores; but that, even in the case of the mail order establishments, their operating costs are not high, considering the fact that there is included in them the cost of delivering merchandise to customers, at the remotest shipping points in Canada.

These low costs of operation have been secured and maintained by our Department Stores, despite an extension of their services to the customer, which places them in a quite unique position with regard to him. Low costs are due to the fact that this form of retail organization makes possible certain economies of operation, which are not open, as a rule, to smaller concerns: in especial, a very rapid rate of merchandise turnover (which reduces the requirement for working capital of the Department Stores); and the continuous provision (at low cost to the selling departments) of expert merchandise and cost control.

While there are many deservedly successful independent establishments—and these are naturally the most efficiently managed of the many thousands of retail enterprises in Canada—generally speaking the smaller retailers operate under certain handicaps; the chief of which is the small number of Canadian households whose custom is available to them individually—not more than thirteen-and-a-half households per store, on an average.

Natural forces arising out of the depression (and for which no man or group of men is responsible) have intensified greatly the difficulties of the smaller retailers during the past few years. Nevertheless, the number of business failures among them has not (so far as it is known) increased since the depression began.

Retail merchants in general, and the Department Stores in particular, have rendered a distinct service to the country during the depression, in helping to bring about a reduction in the prices of goods sold at

retail. In acting as they have done, they have merely been reflecting the reduced demand of the Canadian public. This, in turn, was due primarily to the shrinkage in the world market for agricultural products, and to the paralysis of construction activities: two sinister developments, which have not proved amenable to political or economic control.

If the prices of goods sold at retail had not thus been reduced, the strains and stresses of the depression upon the Canadian people would have been a great deal more severe than, in fact, they were: for they would have been overwhelmingly concentrated upon the farmers and the workers in construction. Only by means of this reduction in the prices of goods sold at retail, could these strains and stresses have been minimised for the two groups most hardly hit, and distributed among the different classes of the people.

In the course of this adjustment, manufacturers have been under a good deal of pressure to reduce costs; and there have been many reductions of wages in factories. As a result, however, of enforced cost reduction, the volume of employment has been relatively well maintained in factories producing consumers' goods for the retail market: and they have not felt the force of the depression, as it has been felt, for example, by the producers of durable goods. In other words, neither when studying the Department Stores, nor when studying the factories from which they procure their merchandise, are we really touching the central features of the depression. The heart of it is to be sought elsewhere.

Price concessions made by the manufacturers, to the so-called "mass-buyers," are an accompaniment of positive advantages thus made available to these manufacturers. From the standpoint of Canadian industry generally, such price concessions are an essential condition, if this Dominion is to retain (even, as at present, in a limited degree) the great economies of mass production. If quantity purchasing were not accompanied by price concessions, the costs of operation in Canadian factories would increase; and the competition of factories in other countries would be made by so much the more intense; an outcome which would be welcomed by nobody.

One of the primary considerations that has guided all retail merchants, during the depression, has been the necessity, so far as possible, to maintain volume of sales. The Department Stores, like their competitors, have done all in their power to maintain volume. Their employees number many thousands. Wages can be paid to them, as income becomes available through sales, and not otherwise. To neglect any legitimate means of keeping up the volume of sales would thus be to jeopardise the welfare of employees.

A merchandising device which has from time to time been used, by many Department Stores, is the

STATEMENT TO THE COMMITTEE

leader." Nevertheless, this is a much less important factor than it is popularly thought to be. Department Stores, moreover, have not been altogether their own masters in resorting to this device: infrequently, they have used it to meet the criticism of others.

Though there has, unavoidably, been a reduction in gate income from sales, which compelled the Company to reduce rates of wages in its stores, it is worthy that the wage adjustments made (taking of the contemporary fall in retail living costs), have been such as to leave the full-time employee a somewhat larger income (measured not in dollars, but in purchasing power) than he possessed at the beginning of the depression.

What has been done, in large part, at the direct expense of interest and profits, which were very much reduced during the depression, and are still being paid at a reduced rate.

Further large economies of operation, and a considerable reduction of the Company's price-spread, present figures, could scarcely now be made, without at a further cost to the employees.

For these reasons (as we remarked at the beginning of this Statement) we do not believe that your Committee will regard the Department Stores (or at least, will not regard those of this Company) as constituting one of "the causes of the large spread between the prices received for commodities by the producer thereof, and the prices paid by the consumer thereof."

2. Future of the Smaller Retailers.

From time to time in this Statement, attention has been drawn to certain advantages possessed by the Department Stores, in their competition for retail business, and to certain disadvantages from which small independent retailers chronically suffer.

In a comparison of these advantages and disadvantages to be presented without qualification, the resulting picture would not only be gloomy, but misleading. For our own part, while we believe in the rise of the Department Stores as part of an economic process which is inevitable—while we believe that mass merchandising methods are the logical parallel of mass production methods—we do not at the moment suppose that this development spells doom of independent retail enterprise.

It is noteworthy that the massive organization of the retail trade has not extinguished the small manufacturer. While circumscribing his activities in certain directions, in others it has given him fresh opportunities. He knows now that certain lines of manufacturing enterprise naturally belong to the large-scale producer: for the small-scale producer cannot, in these times, secure the same economies as the large operator. Armed with this knowledge, he has withdrawn from those sections of the field of manufacture, in which his position would be hopeless.

The same situation—though less well understood—exists, we believe, in the field of retail trade. While recognising the degree to which—in certain directions—the coming of mass merchandising has, in the nature of the case, circumscribed the retail merchant's activities, we hold the view that, under present circumstances, he has—and deserves to have—a secure hold on the public, in lines which lend themselves naturally to small-scale operation.

This is not to say that, with the lifting of the depression, the future of all of the 125,000 retail merchants in the Dominion is assured. For a large proportion of them, economic existence has always been precarious; and precarious it will continue to be for many, so far as we can tell.

(i) Over-crowding of the Retail Field.

Those retail merchants whose markets are being inexorably narrowed by the movements of population—those who have insufficient capital to carry them through temporary difficulties—those who have located their stores on a basis of insufficient knowledge—those who have ventured on the risks of retail merchandising without a right understanding of the technique that this involves—all such, and many more, run the risk of business extinction, sooner or later. There is nothing that can neutralise effectively the difficulties under which they labour.

Each such merchant is clinging to some niche in the structure of Canadian trade, which at one time, no doubt, was attractive in his eyes. But there are many cases in which the niche offers no secure foothold. To release his clutch, to fall out of that niche, involves hardship as a rule, and sometimes heartbreak as well, for the man who has ventured his savings in the launching of a small store. No good citizen can watch unmoved the liquidation, year after year, of a number of retail merchants, amounting perhaps to more than a thousand.

But when we deplore the long list of business failures in retail trade, we must not leave out of account the reasons for these failures. To do so would be sheer sentimentalism. In proportion as we recognise the seriousness of the situation, we have no choice but to face the facts as we find them.

One of the most outstanding is this: that a substantial proportion of the retail merchants of Canada face such difficulties, external and internal—in a restricted clientele, on the one hand, and in restricted resources, on the other—as to make hazardous their continued existence. That is inherent in the present situation. When 125,000 retailers are catering already to scarcely more than 2,250,000 households in this Dominion; and when anyone with a small capital, and without previous experience, can enter the retail field, already so greatly crowded; it is inevitable that the retail merchant should "live dangerously," should be conscious of working under pressure, should complain of undue competition. It is inevitable, also, that a

STATEMENT TO THE COMMITTEE

percentage of retail merchants, month by month, should be forced to put up their shutters.

(ii) Continuous Market Analysis Essential for the Small Retail Merchant.

While the statistical position of Canadian industry has been mapped out, during the past generation, in a manner that has excited widespread admiration in other countries—and the service thus rendered to Canada by the Dominion Bureau of Statistics is not easily to be described—we have remained, until the past few weeks, almost entirely without adequate statistics of retail merchandising. We cannot but recognise that the present difficult situation in the field of retail trade is, in part, a consequence of our past ignorance.

The results of it have been visited, in overwhelming measure, upon the new comers entering the field.

In large-scale business operations of every kind, it has been a not uncommon practice for the wise executive, before he has felt himself justified in embarking his capital in a new direction, to have a special analysis made of the problems that he will encounter, of the needs of the new market into which he proposes to venture, and of the manner in which these needs are already fulfilled. Such a survey may cost the business executive many thousands of dollars; and yet it may be well worth the money. It is likely to make plain to him the pitfalls, into which he would otherwise be likely to stumble. It may warn him from venturing at all in the new field, if the dangers of loss are obviously great. In either case, it is likely to be well worth what it costs.

Quite apart from such surveys, specially commissioned from outside for particular purposes, it is obvious that the large manufacturing or merchandising enterprise, whose operations are already so widespread as to give it a complete cross-section of demand all over the country, can develop and continuously make use of a statistical system based upon its own records, which gives it invaluable guidance.

For the small independent retail merchant, on the other hand, neither has the specially commissioned survey been a practical possibility, nor could a broad enough statistical record be drawn from his own experience, to take the place of such a survey. When, therefore, the newcomer in the retail field has decided to risk his capital, in a store situated at a particular place, and in a particular line of business, he has had no means of knowing, other than by rule-of-thumb judgment, whether the conditions under-lying his enterprise were favourable or unfavourable to him. In the literal sense of the word, he has been making "a leap in the dark." He may happen to have selected a location, and a line of business, which would, almost automatically, bring him at least moderate success; or he may have selected, in all innocence, a location and a line of business in which success was a practical

impossibility. Only his own experience could determine this; and if his selection has unwittingly been a bad one, the penalty for his mistaken judgment, in all too many cases, has been ruin.

This is not a situation that anyone can contemplate with equanimity. Were we compelled to look forward in the future, to conditions in the field of small-scale retail merchandising as chaotic as they have always been in the past, we might be pessimists indeed. Fortunately, there is no reason for the chaos to continue.

The publication by the Dominion Bureau of Statistics, since this Enquiry began, of the valuable "Memorandum on Merchandising in Canada (1930)" has already thrown a flood of light on the situation.

While the contents of the Memorandum are, as yet, by no means well known to the public, we may take it for granted that, in time, through the medium of the press, they will be widely disseminated and understood.

Moreover, this Memorandum is a beginning only. If it were not to be followed up by continuous study, there would be strict limits on its usefulness. We take it for granted that, from henceforth, the situation will be continuously studied as it develops, by the Dominion Bureau of Statistics; and that as time passes, a series of such publications will make available, not only to the small independent retail merchants, but also to those who contemplate entering the field of retail merchandising, a corpus of knowledge which, so far as they are concerned, will provide them with much the same guidance as big business has been getting for many years past, from specially commissioned surveys, and from its own statistical records.

We have already suggested, on an earlier page, that one of the greatest of the services that could be rendered to Canada by this Committee when it reports, is the provision, quite apart from such positive findings as it may feel called upon to make, of an objective description and analysis of the retail field, which will make clear to those who face the risks of retail merchandising, not only the directions in which these risks are to be found in an extreme form, but also, how they may best be minimized or avoided altogether. With all respect, we venture to repeat this suggestion.

(iii) Importance of the Successful Independent Retailer.

It was perhaps inevitable that, under great pressure for time, this Enquiry should elicit information mainly concerning the small retailer who has been *unsuccessful*; and that there should be brought before it comparatively little evidence bearing upon the *successful* independent retail enterprise, and the reasons for its success.

Nevertheless, it is apparent even to the casual observer that, in addition to many weak retail stores,

STATEMENT TO THE COMMITTEE

the existence for years past has been precarious, there are also large numbers of independent retail stores, long established, conservatively financed and well managed, which continue to do steady business at a profit; and which appear to provide an adequate livelihood without difficulty, for employees and proprietors alike.

To conclude this Statement without noting the presence in large numbers (not in our big cities only, but in those of the small cities and towns throughout Canada which have retained their population), of independents of this kind, would be to give a thoroughly distorted picture of the situation.

While the Census of Merchandising does not distinguish in any detail between successful and unsuccessful retailers, we have no doubt that there are independents with a small percentage of overhead cost (and in consequence, a low Gross Margin), which have been at least as profitable, in proportion to the capital invested in them, as any large retail organization in the country.

Handicapped by lack of data, we can make no comparisons. We have analysed our own costs and earnings. We cannot set alongside them the records of others. Your Committee's investigators have gathered from the Department Stores an immense volume of information. We suggest that, in an appraisal of our retail merchandising problems, the same information, if it were to be gathered from successful independents also, would prove invaluable: that without such information, the picture is incomplete.

For present purposes, we content ourselves merely by calling attention to the presence of independents in the retail market, who do not appear to have suffered seriously from contemporary changes, and who have not come forward with complaints.

(iv) Functions and Prospects of the Specialty Store.

As against all the various advantages possessed by the Department Store, the small independent retailer has two priceless and permanent advantages on his side.

Improvements in transportation, no matter how far they may be carried, cannot altogether neutralise the factor of proximity to the customer. To most of its customers, the Department Store must make an appeal from a distance. On the other hand, to the customers who form *his* natural clientele, the small independent retailer (in very many cases, at least) stands "just around the corner."

Moreover, no matter how meticulously the Department Store may try to treat the customer as an individual (and by the careful selection of its sales force, as well as by careful and expensive organization, it may do much), nevertheless, the small independent retailer will *always* be better situated than the Department Store, to study the personal needs, the personal habits and tastes of his customers. How fully

he can exploit the situation, will depend again upon two factors.

The first, and most important, is obviously his own personality. His own direct interest in the business is an essential. As soon as he delegates to sales clerks the responsibilities of studying customers individually, he finds himself in direct competition with the Department Store, in a field in which the Department Store may be the stronger. But if, instead of delegating these responsibilities, he retains them in his own hands: if he maintains a friendly, personal contact with those who come to him: he has then an important and permanent advantage, which his large competitor lacks.

The second of these two factors is his choice of a line of business. In the handling of standard goods, produced for the million without regard to their personal tastes and preferences, but with a guaranteed quality, the small retailer gains little or nothing, from his close contact with the customer. Such goods just as naturally lend themselves to mass merchandising in the retail field, as they lend themselves to mass production in the factory. From first to last, therefore, the so-called "big business" is likely to have an advantage in handling them economically. In this instance, the small retailer stands to gain little, if anything, from his proximity to the customer.

But in the handling of specialties, which appeal to the taste of individuals, *and which are marketable precisely because they have not been standardised*, the small independent retailer has full scope. Here his personal relationship with the customer puts him in a quite unique position *if* he will exploit it.

Whether he will do this, or whether he will let his opportunities pass by, will depend upon his general acquaintance with the technique of merchandising. For, it must be noted, his personal relationship with the customer does not excuse him for any lack of business efficiency. The closeness of that personal relationship, indeed, is likely to make his weaknesses, if any, the more obvious to his customer. Any failure on his part, to maintain proper standards of merchandising, is thus likely to cost him dear. He must control his stock, and he must control his costs, with the same exhaustive attention to detail as the large retailer habitually gives. He must be ready to make concessions to the less-than-completely-satisfied purchaser, just as the Department Store habitually does. He must aim to know just as much about his merchandise, about style and fashion trends, and about design, as the buyer for the big store. Armed with this knowledge, he holds the best possible position for putting it to good use.

It is not to be supposed that all of those, whose ambition leads them into the retail merchandising field, will possess the qualities necessary for the building up and retention of a sufficient clientele. Men with conspicuous gifts will enter the field and make a position for themselves. Men with none of the

STATEMENT TO THE COMMITTEE

necessary gifts will also take up retail merchandising. In the future, no less than in the past, it will be found that a proportion of those entering into retail business do so to their own detriment, not possessing the qualities necessary for success; and in the future, as in the past, the fittest will survive.

Competition is still the means of ensuring, in mines and factories and stores alike, that the public will get good service. With all the wastes that it involves (and these are many) we still find it a necessary safeguard: for we have not yet been able to devise another means of ensuring that the public will continue to get good service, which is as effective, and enables us to dispense with this necessary spur. So long as our reliance is on competition, so long also will the failure of weak competitors provide us with a problem. Without belittling the problem of the business failure, we must frankly recognise that, within our individualist economy, the survival of the fit is in the public interest.

Looking to the future, we may hope that increasing knowledge will increasingly deter those whose chances of success are small, from entering the retail field at all: and so, that increasing knowledge will automatically reduce the percentage of failures in retail trade. In so far as it does deter those would-be merchants

from entering the field, who lack the necessary training, resources and personal qualities, it will also tend to reduce the number of stores competing for the custom of the Canadian public; and so to bring about that most desirable end—an increase in the number of Canadian households per retail store.

With an increase in the custom available to retail merchants individually, the chances of success, all along the line, will automatically brighten. Those independent retailers who have mastered successfully the technique of merchandising, who have selected their location, and their line of business, on a basis of accurate knowledge; who do not over-strain their capital resources; and who, possessing in themselves the necessary personal qualities, use the great opportunities given them through personal contact with the customer; these—and there are many—will, we feel confident, continue to do good business.

Their competition with the so-called "mass buyers" will be far less direct, than it has been in the past. They will not feel, as so many weakly situated merchants feel to-day, that their existence is threatened by the mass buyers. For in the field of retail merchandising, as in most other walks of life, there is room for more than one kind of talent.



